Icon Polymer Group Limited *(formerly Icon Material Technologies Holdings Limited)*

Directors' report and consolidated financial statements

Registered number 3907128

30 September 2002

7/4/03 - 357

Contents

Company information

Chairman	J McGowan
Managing Director	R Gogerty
Directors	A Sunter M Callan JD Simm
Secretary	A Sunter
Auditors	KPMG LLP St Nicholas House Park Row Nottingham NG1 6FQ
Bankers	Lloyds TSB Bank plc Black Horse House Medway Wharf Road Tonbridge Kent TN9 1QS
Registered office	c/o Icon Northern Rubber Limited Thrumpton Lane Retford Nottinghamshire DN22 6HH
Registered number	3907128

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2002.

Principal activities

The principal activity of the company is that of a holding company, and that of the group is the manufacture and distribution of rubber products.

Business review

The profit for the year, after taxation, amounted to £1,005,000 *(2001: £207,000)*.

Following the acquisition of Icon Northern Rubber Limited (formerly The Northern Rubber Company Limited) the company changed its name from Icon Material Technologies Holdings Limited to Icon Polymer Group Limited in the first quarter of the financial year.

During the year the group integrated the businesses of two if its subsidiaries, Icon Warne Limited and Icon Northern Rubber Limited. The activities of Icon Warne Limited were relocated from Barking, Essex to the Icon Northern Rubber site in Retford, Nottinghamshire. The Barking site was sold to an industrial land developer.

The site integration process was largely completed in the year, with full site vacation at Barking being completed on 15 November 2002.

Since the year end management have been undertaking a financial restructuring of the group with the aim of increasing their ownership of the business. At the time of finalising these financial statements, this was not completed.

Research and development

During the year, the group has maintained its strong emphasis on research and development. Activities consisted of its own personnel working with established and potential customers to improve products and develop new ones.

Dividends

Preferred ordinary dividends of £40,000 were paid in the year *(2001: £nil)*. No dividends are proposed.

Directors and directors' interests

The directors who held office during the year and their interests in the share capital of the company were as follows:

		Ordinary shares		Preference shares	
		2002	2001	**2002**	2001
J McGowan	- appointed 1 November 2001	**5,916**	-	**5,916**	-
R Gogerty		**46,654**	52,650	**46,654**	52,650
A Sunter		**21,429**	21,750	**21,429**	21,750
M Callan		**15,919**	13,500	**15,919**	13,500
JD Simm	- appointed 1 February 2002	-	-	-	-
N Ashurst	- resigned 22 March 2002	-	13,500	-	13,500
A Peake	- resigned 26 October 2001	-	13,500	-	13,500
P Slade	- resigned 14 November 2001	-	28,350	-	28,350

According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Directors' report *(continued)*

Disabled persons

The group gives sympathetic consideration to applications for vacancies from disabled persons when particular job requirements are considered to be within their capabilities. The group also endeavours to provide equal opportunity in the training, promotion and career development of disabled persons.

Employee involvement

The group recognises the value of comprehensive employment policies, designed to identify employees with the group and to apply their knowledge and skills towards its success.

Political and charitable contributions

The group made no political or charitable contributions during the year *(2001: £nil)*.

Auditors

KPMG were re-appointed auditors at the last Annual General Meeting. However, since that date their business has been transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors in the year and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A Sunter
Secretary

Registered office:

c/o Icon Northern Rubber Limited
Thrumpton Lane
Retford
Nottinghamshire
DN22 6HH

12 December 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG LLP
St Nicholas House
Park Row
Nottingham
NG1 6FQ

Independent auditors' report to the members of Icon Polymer Group Limited (formerly Icon Material Technologies Holdings Limited)

We have audited the financial statements on pages 6 to 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 September 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

12 December 2002

Consolidated profit and loss account
for the year ended 30 September 2002

	Note	2002 £000	2001 £000
Turnover	2		
Continuing operations		**19,063**	8,456
Acquisitions		**-**	554
		19,063	9,010
Cost of sales		**(12,251)**	(4,593)
Gross profit		**6,812**	4,417
Distribution costs		**(994)**	(562)
Administrative expenses		**(2,913)**	(2,643)
Operating profit	3		
Continuing operations		**2,905**	1,131
Acquisitions		**-**	81
		2,905	1,212
Profit on sale of land and buildings		**8**	-
		2,913	1,212
Interest receivable and similar income	6	**13**	34
Interest payable and similar charges	7	**(1,159)**	(802)
Profit on ordinary activities before taxation		**1,767**	444
Tax on profit on ordinary activities	8	**(762)**	(237)
Profit on ordinary activities after taxation		**1,005**	207
Dividends	9	**(40)**	-
Profit transferred to reserves	19	965	207

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account.

In both the current and preceding year the group had no discontinued operations.

Consolidated balance sheet
as at 30 September 2002

	Note	2002		2001	
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	10		**4,255**		4,495
Tangible assets	11		**5,783**		7,769
			10,038		12,264
Current assets					
Stocks	13	**1,719**		1,493	
Debtors	14	**4,385**		3,839	
Cash at bank and in hand		**1,917**		754	
		8,021		6,086	
Creditors: amounts falling due within one year	15	**(8,231)**		(7,943)	
Net current liabilities			**(210)**		(1,857)
Total assets less current liabilities			**9,828**		10,407
Creditors: amounts falling due after more than one year	16		**(7,951)**		(9,561)
Provisions for liabilities and charges	17		**(430)**		(252)
Net assets			**1,447**		594
Capital and reserves					
Called up share capital	18		**96**		152
Share premium account	19		**317**		373
Capital redemption reserve	19		**56**		-
Profit and loss account	19		**978**		69
Shareholders' funds	20				
Equity		**1,353**		444	
Non-equity		**94**		150	
			1,447		594

These consolidated financial statements were approved by the board of directors on 12 December 2002 and were signed on its behalf by:

R Gogerty
Director

A Sunter
Director

Balance sheet
as at 30 September 2002

	Note	2002		2001	
		£000	£000	£000	£000
Fixed assets					
Investments	12		15,010		14,995
Current assets					
Debtors	14	724		419	
Cash at bank and in hand		13		57	
		737		476	
Creditors: amounts falling due within one year	15	(7,063)		(6,137)	
Net current liabilities			(6,326)		(5,661)
Total assets less current liabilities			8,684		9,334
Creditors: amounts falling due after more than one year	16		(7,808)		(9,276)
Net assets			876		58
Capital and reserves					
Called up share capital	18		96		152
Share premium account	19		317		373
Capital redemption reserve	19		56		-
Profit and loss account	19		407		(467)
Shareholders' funds	20				
Equity		782		(92)	
Non-equity		94		150	
			876		58

These consolidated financial statements were approved by the board of directors on 12 December 2002 and were signed on its behalf by:

R Gogerty
Director

A Sumner
Director

Consolidated cash flow statement

for the year ended 30 September 2002

	Note	2002 £000	2001 £000
Cash flow from operating activities	*21*	**3,372**	702
Returns on investments and servicing of finance	*22*	**(946)**	(878)
Taxation		**(153)**	(275)
Capital expenditure and financial investment	*22*	**1,104**	(138)
Acquisitions and disposals	*22*	**-**	(2,743)
Cash flow before financing		**3,377**	(3,332)
Financing	*22*	**(2,214)**	3,227
Increase/(decrease) in cash in the year		**1,163**	(105)

Reconciliation of net cash flow to movement in net debt

		2002 £000	2001 £000
Increase/(decrease) in cash in the year		**1,163**	(105)
Cash inflow from new long term loans		**-**	(4,000)
Issue costs of new long term loans		**-**	202
Loan repayments		**2,103**	754
Cash used to repay capital element of finance leases		**-**	19
Change in net debt resulting from cash flows		**3,266**	(3,130)
Amortisation of loan issue costs		**(240)**	(48)
Movement in net debt in the year	*23*	**3,026**	(3,178)
Net debt at the start of the year		**(11,849)**	(8,671)
Net debt at the end of the year		**(8,823)**	(11,849)

Notes

(forming part of the non-statutory consolidated financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's consolidated financial statements with the exception of the adoption of FRS 18 'Accounting policies' and FRS 19 'Deferred taxation'.

Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings up to 30 September 2002. The acquisition method of accounting has been adopted for Icon Warne Holdings Limited and its subsidiary, and for Icon Northern Rubber Limited (formerly The Northern Rubber Company Limited).

Icon Polymer Limited (formerly Icon Material Technologies Limited) has been included in the group consolidated financial statements using the merger method of accounting. Accordingly, the group profit and loss account includes the results and cash flows of Icon Polymer Limited for the period from incorporation.

Under section 230(3) and 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration paid over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

In the company's financial statements, investments in subsidiary undertakings, are stated at cost less amounts provided for impairment.

Turnover

Turnover comprises sales in the ordinary course of business to customers for goods supplied and services provided, exclusive of value added tax.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	- 25 years
Freehold land and buildings	- 40 years
Plant and equipment	- 4 to 10 years

No depreciation is provided on freehold land.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the rate ruling at the date of each transaction. Exchange difference arising from day to day business transactions are included in operating results.

Pensions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting year.

The group also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. Contributions to the scheme have ceased and the scheme is being wound up. Further details are provided in note 26.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value, as follows:

Raw materials, consumables and goods for resale	Purchase cost on a first-in, first-out basis
Work in progress and finished goods	Cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated sales price less any further costs expected to be incurred to completion and disposal. Provisions are made where appropriate against slow moving and obsolete stocks.

Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred taxation'.

2 Turnover

Turnover represents the sale of goods and services, excluding value added tax, and is attributable to the manufacture and distribution of rubber products.

An analysis of turnover by geographical market is given below:

	2002	2001
	£000	£000
United Kingdom	**14,517**	8,147
Rest of the World	**6,071**	863
	20,588	9,010

Notes *(continued)*

3 Operating profit

			2002	2001
			£000	£000
This is stated after charging/(crediting)				
Depreciation	- owned		**744**	185
Amortisation of goodwill			**240**	240
Auditors' remuneration	- Group	- audit	**28**	21
		- non-audit	**5**	-
	- Company	- audit	**2**	2
Operating lease rentals	- plant and machinery		**59**	63
Reorganisation costs			**796**	727
Research and development			**3**	-
Loss on sale of fixed assets			**146**	-

4 Remuneration of directors

	2002	2001
	£000	£000
Directors' emoluments	**644**	528
Contributions to money purchase pension schemes	**44**	44
Compensation for loss of office	**34**	342
Amounts paid to third parties in respect of directors' services	**2**	23

Compensation for loss of office costs are included in the reorganisation costs in note 3. Included within emoluments above is £2,000 *(2001: £23,000)* paid to Cottonwood Limited for the provision of services of Mr A Peake.

The aggregate emoluments of the highest paid director was £120,000 *(2001: £198,000)*, and company pension contributions of £10,500 *(2001: £6,000)* were made to a money purchase scheme on his behalf.

	2002	2001
	Number	Number
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**4**	5

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Manufacturing	**255**	22
Administration	**101**	109
Sales and distribution	**18**	8
	374	139

Notes *(continued)*

5 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	6,251	2,698
Social security costs	425	236
Other pension costs	119	79
	6,795	3,013

Wages and salaries in the previous year includes £727,000 for redundancy costs and compensation for loss of office. (See note 3).

6 Interest receivable and similar income

	2002 £000	2001 £000
Bank interest	13	34

7 Interest payable and similar charges

	2002 £000	2001 £000
On bank loans and overdrafts	532	594
Other loans	387	160
Amortisation of loan issue costs	240	48
	1,159	802

8 Tax on profit on ordinary activities

	2002 £000	2001 £000
Based on the profit for the year		
UK corporation tax at 30% - current year	584	212
Current tax	584	212
Deferred taxation (note 17)	178	25
	762	237

Notes *(continued)*

8 Tax on profit on ordinary activities *(continued)*

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2001: higher)* than the standard rate of corporation in the UK of 30%. *(2001: 30%)*. The differences are explained below:

	2002	2001
	£000	£000
Current tax reconciliation:		
Profit on ordinary activities before tax	**1,767**	444
Current tax at 30% *(2001: 30%)*	**530**	133
Effects of:		
Expenses not deductible for tax purposes	**107**	93
Capital allowances for the period lower than/(in excess of) depreciation	**40**	(4)
Depreciation on non-qualifying assets	**(30)**	-
Differences in the timing of tax relief on expenditure	**(92)**	-
Capital gain rolled over	**(528)**	-
Adjustments to tax charge in respect of previous years	**-**	(10)
Fair value adjustment	**557**	-
Total current tax charge	**584**	212

9 Dividends

	2002	2001
	£000	£000
Preferred ordinary paid	**40**	-

No preference dividend was paid in the year *(2001: £nil)*.

10 Intangible fixed assets

Group	**Goodwill £000**
Cost:	
At beginning and end of year	4,794
Accumulated amortisation:	
At beginning of year	299
Charged in year	240
At end of year	539
Net book value:	
At 30 September 2002	**4,255**
At 30 September 2001	4,495

Notes *(continued)*

11 Tangible fixed assets

Group	Freehold property £000	Plant and equipment £000	Total £000
Cost:			
At 1 October 2001	5,006	12,661	17,667
Additions	130	2,203	2,333
Disposals	(3,756)	(3,543)	(7,299)
At 30 September 2002	1,380	11,321	12,701
Accumulated depreciation			
At 1 October 2001	313	9,585	9,898
Charge for year	40	704	744
On disposals	(327)	(3,397)	(3,724)
At 30 September 2002	26	6,892	6,918
Net book value			
At 30 September 2002	**1,354**	**4,429**	**5,783**
At 30 September 2001	4,693	3,076	7,769

Included within freehold property is land at £1,050,000 *(2001: £2,880,000)* which is not depreciated.

12 Investments

Company	£000
Cost or valuation:	
At 1 October 2001	14,995
Additions	15
At 30 September 2002	**15,010**

Notes *(continued)*

12 Investments *(continued)*

Details of the subsidiaries in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding and type of shares	Proportion of voting rights and shares held	Nature of Business
Subsidiary undertakings			
Icon Warne Limited	Ordinary Preference	100% 100%	Rubber products manufacturer
Icon Warne Holdings Limited	Ordinary	100%	Holding company
Icon Material Technologies Limited	Ordinary	100%	Property holding and fixed asset hire
Icon Northern Rubber Limited (formerly The Northern Rubber Company Limited)	Ordinary	100%	Rubber products manufacturer

13 Stocks

Group	**2002** **£000**	2001 £000
Raw materials and consumables	**276**	380
Work in progress	**578**	219
Finished goods and goods for resale	**865**	894
	1,719	1,493

The excess of replacement cost over the balance sheet amount is not significant.

14 Debtors

	Group		Company	
	2002 **£000**	2001 £000	**2002** **£000**	2001 £000
Trade debtors	**4,297**	3,410	**-**	33
Amounts owed by group undertakings	**-**	-	**724**	361
Other debtors	**56**	93	**-**	25
Other taxation recoverable	**-**	262	**-**	-
Prepayments and accrued income	**32**	74	**-**	-
	4,385	3,839	**724**	419

Notes *(continued)*

15 Creditors: amounts falling due within one year

	Group		Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Bank loans (see note 16)	**2,933**	3,327	**2,933**	3,327
Trade creditors	**2,765**	1,957	**-**	-
Amounts owed to group undertakings	**-**	-	**3,858**	2,197
Corporation tax	**143**	153	**-**	-
Other taxation and social security	**886**	801	**-**	-
Accruals and other creditors	**1,504**	1,705	**272**	613
	8,231	7,943	**7,063**	6,137

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Bank loans	**7,808**	9,276	**7,808**	9,276
Pension scheme	**143**	285	**-**	-
	7,951	9,561	**7,808**	9,276

Analysis of debt:	**2002**	2001
	£000	£000
Debt can be analysed as falling due:		
In one year or less, or on demand	**2,933**	3,327
Between one and two years	**1,174**	1,700
Between two and five years	**1,500**	3,123
	5,607	8,150
In five years or more	**5,425**	4,984
	11,032	13,134
Less: unamortised issue expenses	**(291)**	(531)
	10,741	12,603
Less: included in creditors: amounts falling due within one year	**(2,933)**	(3,327)
	7,808	9,276

Notes *(continued)*

16 Creditors: amounts falling due after more than one year *(continued)*

The loan balances comprise:

- £3,925,000 8.75% secured loan notes 2008;
- £1,000,000 8.00% secured loan notes 2008;
- £1,634,000 floating rate guaranteed loan notes 2006. The rate of interest payable is 1% below LIBOR. The notes are repayable at par on 31 December 2006. Each noteholder is entitled to request early repayment at par on any interest payment date on or after 31 December 2000;
- £1,473,000 term loan repayable in quarterly instalments of £125,000 commencing 30 June 2001 to 31 March 2002 and thereafter £200,000 on each following repayment date. Interest is payable on this loan at 2.00% above Lloyds TSB Bank Plc base rate;
- £3,000,000 term loan repayable in quarterly instalments of £125,000 commencing 31 October 2002. Interest is payable on this loan at 1.75% above Lloyds TSB Bank Plc base rate.

Loans are secured by a floating charge over all the assets in the group, and by a debenture over all of the property in the group.

17 Provisions for liabilities and charges

Group	**Deferred taxation £000**	**Other provision £000**	**Total £000**
At 1 October 2001	231	21	252
Charge for the year	446	-	446
Amounts released	(268)		(268)
Transfers	21	(21)	-
At 30 September 2002	**430**	**-**	**430**

The amounts provided for deferred taxation are set out below:

	2002 £000	2001 £000
Accelerated capital allowances	**72**	231
On short term timing differences	**358**	-
	430	231

Notes *(continued)*

18 Called up share capital

	2002 £000	2001 £000
Authorised		
150,000 ordinary shares of 50p each	**75**	75
200,000 preferred ordinary shares of 1p each	**2**	2
150,000 redeemable preference shares of 50p each	**75**	75
	152	152
Allotted, called up and fully paid		
94,000 *(2001: 150,000)* ordinary shares of 50p each	**47**	75
200,000 preferred ordinary shares of 1p each	**2**	2
94,000 *(2001: 150,000)* redeemable preference shares of 50p each	**47**	75
	96	152

Redemption of ordinary and redeemable preference shares

During the year 56,000 ordinary shares and 56,000 redeemable preference shares were redeemed for £112,000. A statutory transfer to capital redemption reserve has been made of £56,000, representing the nominal value of the shares redeemed.

Redeemable preference shares

Preference shareholders are not entitled to vote on any resolution of the company. On winding up the available assets of the company will be applied in repaying to the preference shareholders the amount paid up on the shares and any premium together with any unpaid dividends due. The company is required to redeem all outstanding preference shares on 1 October 2008. The company has the right to redeem all or such other number, in multiples of not less than 50,000, at any time before the redemption date.

Preferred ordinary shares

Preferred ordinary shareholders are entitled to an 8.75% annual dividend, on the aggregate of the amount paid for each share and any premium paid on subscription, for each financial year up to 30 September 2003. For the following years the preferred ordinary shareholders are entitled to a share of the company and group companies' profits, before taxation, on an increasing scale up to 20% of profit before tax for the year ended 30 September 2008. Preferred ordinary dividends paid in the year of £40,000 include the cumulative arrears of dividend in respect of 2001 of £20,000. As at 30 September 2002 cumulative arrears of dividend amounted to £nil.

On winding up the available assets of the company, after repayment of preference shareholders, will be applied in repaying to the preferred ordinary shareholders the amount paid up on the shares and any premium together with any unpaid dividends due. Each preferred ordinary shareholder is entitled to one vote per share at meetings. If any dividends due to preferred ordinary shareholders remain unpaid for five days after due dates each shareholder is entitled to three votes per share at meetings.

Notes *(continued)*

19 Reserves

	Group			Company		
	Share premium £000	**Capital redemption reserve £000**	**Profit and loss account £000**	**Share premium £000**	**Capital redemption reserve £000**	**Profit and loss account £000**
At 1 October 2001	373	-	69	373	-	(467)
Redemption during the year	(56)	-	-	(56)	-	-
Statutory transfer	-	56	(56)	-	56	(56)
Profit for the year	-	-	965	-	-	930
At 30 September 2002	**317**	**56**	**978**	**317**	**56**	**407**

20 Reconciliation of movements in shareholders' funds

	Group		Company	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Profit for the financial year	**965**	207	**930**	(209)
Redemption of share capital	**(112)**	-	**(112)**	-
Net addition to/(reduction in) shareholders' funds	**853**	207	**818**	(209)
Opening shareholders' funds	**594**	387	**58**	267
Closing shareholders' funds	**1,447**	594	**876**	58

21 Reconciliation of operating profit to net cash flow from operating activities

	2002 £000	2001 £000
Operating profit	**2,905**	1,212
Depreciation	**744**	185
Amortisation of goodwill	**240**	240
Increase in stocks	**(226)**	(84)
Increase in debtors	**(987)**	(532)
Increase/(decrease) in creditors	**692**	(115)
Decrease in other provisions	**(142)**	(9)
Reorganisation costs incurred	**-**	(195)
Loss on sale of fixed assets	**146**	-
Net cash flow from operating activities	**3,372**	702

Notes *(continued)*

22 Analysis of cash flows

	2002 £000	2001 £000
Returns on investment and servicing of finance		
Interest received	13	34
Interest paid	(919)	(677)
Issue costs on long term loans	-	(235)
Dividends paid	(40)	-
	(946)	(878)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(2,333)	(238)
Sale of tangible fixed assets	3,437	100
	1,104	(138)
Acquisitions and disposals		
Purchase of subsidiary undertakings	-	(2,791)
Net cash acquired with subsidiary undertakings	-	48
	-	(2,743)
Financing		
Redemption of share capital	(112)	-
Net movement in long term borrowings	(2,102)	3,246
Repayments of capital elements of finance leases and hire purchase contracts	-	(19)
	(2,214)	3,227

23 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non-cash changes £000	At end of year £000
Cash at bank and in hand	754	1,163	-	1,917
Long term loans	(5,903)	1,961	(240)	(4,182)
Loan notes	(6,700)	142	-	(6,558)
Total	(11,849)	3,266	(240)	(8,823)

Notes *(continued)*

24 Commitments

a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2002 £000	2001 £000
Contracted	-	1

b) Annual commitments under non-cancellable operating leases are as follows:

	Plant and machinery £000	Plant and machinery £000
Operating leases which expire:		
Within one year	37	1
In the second to fifth years inclusive	29	121
	66	122

25 Contingent liabilities

Guarantees for £40,000 *(2001: £40,000)* have been provided to HM Customs & Excise.

26 Pension scheme

The group operates a defined contribution pension scheme for its directors and employees. The assets are held separately from those of the group in an independently administered fund. The unpaid contributions outstanding at the year end, included in 'accruals and other creditors' are £6,000 *(2001: £4,000)*.

Icon Northern Rubber Limited (formerly The Northern Rubber Company Limited), which was acquired in the previous year, operated a defined benefit pension scheme.

The group has continued to account for this pension scheme in accordance with SSAP 24 and the disclosures given in (a) are those required by that standard.

FRS 17 'Retirement Benefits' was issued in November 2000 and is mandatory for accounting periods commencing on or after 1 January 2005. Full transitional disclosures are required in the intervening period. These disclosures, to the extent not given in (a) below, are set out in (b).

(a) The assets of the scheme are held in separate funds administered by trustees. The pension cost relating to the scheme is assessed in accordance with the advice of an independent actuary using the projected unit method. The pension cost for the year of £nil is determined so as to spread the cost of the pension over employees' working lives with the company. The latest actuarial valuation of the scheme was on 5 April 1999. The assumption which has the most significant effect on the valuation is the long term average investment return. This has been determined at 2.0% per annum higher than average increase in pay. The market value of assets of the plan at the date of the valuation was £17,849,000 and the valuation of the assets was sufficient to cover 127% of the liability for benefits that had accrued to members at that date. There were no significant contributions outstanding or prepaid by the company at 30 September 2002. An amount of £143,000 *(2001: £285,000)* is included in creditors falling due after more than one year, representing the excess of pension costs charged over the amounts contributed to the scheme in accordance with SSAP 24.

Notes *(continued)*

26 Pension scheme *(continued)*

At the present time, contributions are no longer being made to this scheme and scheme members have been transferred to the group defined contribution scheme during the year.

(b) FRS 17 'Retirement Benefits'

The valuation has been updated by the actuary, on an FRS 17 basis as at 30 September 2002.

Until 31 January 2002, the company contributed at the rate of 0.1% of contribution earnings. With effect from 31 January 2002, the company ceased paying contributions. Benefit accrual ceased at that date and all active members at 31 January 2002 were treated as having left service.

The major assumptions used in the valuation were as follows:

Discount rate	5.4%
Inflation rate	2.4%
Increases in pensions in payment	2.4%
Rate of increase in salaries	n/a

The discount rate used to discount scheme liabilities has been based on the yield of AA Corporate Bonds.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 30 September 2002 £000
Equities	-
Bonds	16,141
Corporate bonds	-
Assets at market value	16,141
Present value of scheme liabilities	(13,676)
Surplus in the scheme	2,465
Related deferred tax liability	(740)
Net pension surplus - unrecognised	1,725

In accordance with the terms of FRS 17, a surplus can only be recognised to the extent that the group can expect to secure future economic benefits from it, either by paying a reduced rate of future contributions or by taking a refund from the scheme. Since the scheme is being wound up, the actuary does not expect that the group will be able to derive any economic benefit from the surplus and as such, it would be treated as unrecognised, representing a curtailment loss.

The above disclosures are in accordance with FRS 17 'Retirement Benefits'. Any additional liabilities are excluded.

Notes *(continued)*

27 Related party disclosures

The company has taken advantage of the exemption under FRS 8 'Related Party Transactions' and has not disclosed such transactions with group companies, all of which are more than 90% owned within the group.