



Annual Report 2006



Poised for...



The image features a dark blue background with several overlapping, semi-transparent blue geometric shapes, primarily triangles and quadrilaterals, creating a layered effect. The word "growth" is written in a clean, white, lowercase sans-serif font, positioned diagonally across the center of the composition. The text is the most prominent element, standing out against the darker blue background and the lighter blue shapes.

growth

Avon Rubber p.l.c.
is an innovative
engineering group with
a portfolio of businesses
where knowledge,
experience and
intellectual property
make a material
difference

1	Financial Summary & Highlights
2	Chairman's Statement
4	Operating and Financial Review
9	Board of Directors
10	Directors' Report
12	Corporate Governance
14	Remuneration Report
20	Statement of Directors' Responsibilities
21	Independent Auditors' Report: Group
22	Consolidated Income Statement
22	Consolidated Statement of Recognised Income and Expense
23	Consolidated Balance Sheet
24	Consolidated Cash Flow Statement
25	Accounting Policies and Critical Accounting Judgements
30	Notes to the Financial Statements
53	Independent Auditors' Report: Parent Company
54	Parent Company Balance Sheet
55	Parent Company Accounting Policies
56	Notes to The Parent Company Financial Statements
60	Five Year Record
61	Notice of Annual General Meeting
ibc	Shareholders' Information

Financial Summary & Highlights



	30 Sept 2006 £Millions	30 Sept 2005 £Millions
CONTINUING OPERATIONS		
Revenue	65.0	46.9
Operating loss	(2.5)	(3.2)
Operating loss before exceptional items	(2.0)	(1.9)
DISCONTINUED OPERATIONS		
Revenue	165.8	192.8
Operating profit for the year	4.1	1.2
Operating profit for the year before exceptional items	5.0	8.1
GROUP*		
Revenue	230.8	239.7
Operating profit/(loss)	1.6	(2.0)
Operating profit before exceptional items	3.0	6.2
LOSS PER SHARE:		
Basic	(68.9)p	(19.1)p
Continuing operations	(20.1)p	(21.9)p
DIVIDENDS PER SHARE	8.5p	8.5p

*The Group figures are non statutory items.

- Year of significant strategic change
- Group now focusing on respiratory protection, dairy, aerosol gaskets and engineered fabrications
- Revenue on continuing operations up 39%
- Net debt reduced to £1.1 million
- Dividend maintained
- Results prepared under International Financial Reporting Standards (IFRS)

Chairman's Statement

Trevor Bonner CBE, Chairman



We have completed a major strategic restructuring during the year. We sold our Automotive business, finalised the restructuring at our Hampton Park West facility and completed the disposal of Avon Zatec. This repositions the Group in our chosen markets of respiratory protection, dairy, aerosol gaskets and engineered fabrications where we believe the opportunities exist for us to benefit from higher margin growth and sustainable earnings.

Trading was disappointing during the year, particularly in the second half. Having announced the Automotive disposal in May, the delayed August completion date meant that we incurred losses associated with customer shutdown periods of July/August without the benefit of normally improved trading in September. Interest costs were also higher due to the delayed completion. The short-term improvements expected at the half year from our respiratory protection business were not realised as originally planned. This was through a combination of market factors and the inherent uncertainties associated with the introduction and approval of new safety critical products in a demanding regulatory environment, where a large proportion of our sales are now to military users or other governmental organisations. Once contracts start these provide for long-term and consistent revenue streams although the exact timing of initial production orders is less predictable.

The transfer into production of the new generation US military respirator and the associated filters continues to make progress. We have received further orders for this respirator and expect the full rate production order shortly. This will enable our respiratory protection business in Cadillac, Michigan, to grow and operate at planned levels of profitability. The businesses situated in Hampton Park West are now showing significant improvements and production rates of the newly introduced rapid escape hood are approaching targeted levels. Our North American dairy business and engineered fabrications continue to demonstrate strong operational performance.

RESULTS

The Group reports full year results for the first time under International Financial Reporting Standards (IFRS), adopted from 1 October 2004, being the date of transition.

Revenue from continuing operations increased by £18.1m to £65.0m (2005: £46.9m). We incurred an operating loss of £2.5m (2005: £3.2m) on these continuing operations after exceptional operating charges of £0.5m (2005: £1.3m). The exceptional charges comprise the costs of restructuring in the UK, the cost of exiting our UK business machines manufacturing activity and the impairment of our mixing facility, partially offset by the profit on the

sale and leaseback of the Hampton Park West site. The operating loss before exceptional items was £2.0m (2005: £1.9m).

After net finance costs of £1.2m (2005: £1.5m), the loss before tax was £3.7m (2005: £4.7m). The taxation charge was £2.0m (2005: £1.1m), resulting in a loss for the year after tax from continuing operations of £5.7m (2005: £5.8m).

The loss for the year from discontinued operations was £13.4m (2005: £0.7m profit). This consists of an operating profit of £4.0m (2005: £1.2m) after exceptional operating charges of £0.9m (2005: £6.9m), a taxation credit of £0.6m (2005: £0.6m charge) and losses totalling £18.0m on the disposal of our Automotive business and of Avon Zatec, our US business machines business.

The Group loss for the year after tax was £19.1m (2005: £5.0m). Net borrowing reduced to £1.1m (2005: £51.7m).

EMPLOYEES

Despite the disappointing results and the considerable distraction caused by the strategic restructuring, our employees continued to demonstrate their dedication and commitment. I would like, once again, to commend and thank them for this. The Board believes that their skill, expertise and endeavours will be key elements in delivering future success for the benefit of all stakeholders in the Group.

CAPITAL STRUCTURE AND DIVIDEND

At the time of our interim statement in May, and following the disposal of the Automotive business, we stated that the Board would consider the appropriate capital structure for the Group. This would require balancing important factors, including perceived growth/acquisition opportunities, product development programmes, restructuring plans, on-going pension obligations and distribution policy.

The Board has undertaken this review and believes the Group is now poised for a period of organic growth, particularly in respiratory protection. This will require funding for both working capital and new product development. In addition, the Board wishes to be in a position to make appropriate acquisitions in pursuit of the Group's strategy. There is still a deficit in the pension fund despite improved asset returns in the year, but with the latest valuation taking account of increased life expectancy. As a result the Board is of the opinion that, having taken into account current financing availability and potential debt capacity, any enhanced distribution may inhibit the opportunities for growth. The Board is, however, recommending an unchanged final dividend of 4.8p per share (2005: 4.8p per share) which will be paid on 2 February 2007 to shareholders on the register on 12 January

2007. When added to the interim dividend of 3.7p per share (2005: 3.7p per share) the total dividend is unchanged at 8.5p per share (2005: 8.5p per share). The Board recognises that this dividend is not covered by current earnings but is committed to returning to appropriate levels of dividend cover going forward.

OUTLOOK

The last eighteen months has been a period of significant strategic change for the Group. Having disposed of our Automotive business and closed or restructured other loss making activities, we are now focused on the opportunities in respiratory protection, dairy, aerosol gaskets and engineered fabrications. Our position in respiratory protection has been strengthened by the acquisition of ISI, the launch of the new escape hood and the transfer into production of the new M50 range of respirators and their associated filters for the US government.

In the UK we are seeing the benefits of the cost reduction measures taken last year. We are also experiencing increased demand for our legacy respiratory protection products and our new escape hood. In North America both our dairy and engineered fabrications businesses continue to perform well. Since the year end the overall performance from our continuing operations is improving and we expect significant growth from the North American respiratory protection business.

The Board is confident that the strategic changes that have been made have laid the foundation for a period of exciting and profitable growth for the Group.

BOARD CHANGES

As already announced I shall be stepping down as Chairman and retiring from the Board on 25 January 2007. My successor will be The Rt. Hon. Sir Richard Needham.

This will therefore be my last Chairman's Statement, and whilst it would have been a more pleasant experience to be reporting better financial results for the final year, I believe that the strategic changes we have made have established a solid platform for the Group's development in the years ahead.

It has been an honour to serve as a Director and as Chairman of this great company, and I would like to wish Sir Richard, the Board and all employees every success in the future.

Trevor Bonner CBE, Chairman

Operating and Financial Review



Group Activities

Avon is an innovative engineering group with a balanced portfolio of businesses which develop and manufacture specialist products from a number of sites in the USA and UK, serving markets around the world.

Looking forward, after the disposal of Automotive, the major business lines are respiratory protection and dairy. These are supported by engineered fabrications and aerosol gaskets with products for business machines and contract rubber mixing making up the balance of the portfolio.

Respiratory Protection

The respiratory protection business consists of a growing range of products, the most important of which are respirators or gas masks (product names S10, FM12, M50, C50 and M53), rapid escape hoods (EH20) and self contained breathing apparatus (SCBA) (primarily the Viking product). The respirators and escape hoods offer breathing protection to varying degrees against nuclear, chemical, radiological and biological threats while the SCBA equipment offers protection in oxygen depleted environments. We also manufacture respirator filters and thermal imaging camera equipment.

The respirators are sold direct to military markets where our primary customers are the US Department of Defense and the UK Ministry of Defence (MOD) as well as a number of other approved governments globally. Other significant markets are categorised under the Homeland Security banner which includes the police and other emergency services to which our products are sold either directly or through distribution channels. The SCBA and thermal imaging equipment is focussed on fire services and other industrial users primarily supplied through a distribution network in the USA. All these products are safety critical and the markets are consequently highly regulated with the approvals standards creating significant entry barriers. The product life cycles are long and standardisation to a particular product by users the norm.

Dairy

Our dairy business manufactures and sells products used in the automated milking process, primarily rubberware such as liners or inflations and tubing. These products are in direct contact with the cow and are replaced regularly to ensure product hygiene, animal welfare and to maximize performance. The global market is concentrated in the high consumption automated markets in North America and Western Europe where we have significant market shares. Our products are manufactured for major original equipment manufacturers (OEM's) as well as being sold through distributors under our own Milk-Rite brand. We excel in product design, materials specification and manufacturing efficiency.

Other products

We produce aerosol gaskets, both 'inners' which are key to the dispensing process and 'outers' which seal the aerosol container. These are sold directly to OEM's and we have a sizable share of the global market. Material science, manufacturing precision and

customer service are essential in this market. Engineered fabrications covers two major product areas; skirts for military air cushioned vehicles (ACV's or hovercraft) and nitrile and thermoplastic fuel or water storage tanks. The customer base is largely military. Rollers for printers are also produced through a sub-contract manufacture arrangement for an OEM customer and we mix rubber for both internal use and external customers.

OBJECTIVES AND STRATEGIES

The Group is committed to generating shareholder value through developing and exploiting products and serving markets which can deliver long term sustainable revenues at above average margins. The strategy to achieve this is to expand our respiratory protection business, sustain and develop our strong dairy operations and maximise the potential of our other businesses.

Respiratory Protection

We have a world leading range of military respirators, developed over a number of years and funded partially by our customers, where we either own or jointly own the intellectual property. Our strategy is to exploit this strong position in the military market, initially through the commencement of a long term contract to supply the USA military and subsequently through sales to other approved forces. We will simultaneously target homeland security markets with a non-military version of these products. The rapid escape hood has recently been introduced in the UK. This product has considerable potential in the emergency services market and potentially in the commercial sector as well. Our SCBA products have the potential for greater market penetration both in the USA and globally.

We aim to increase our range of product offerings, widen our routes to market and aggressively pursue further product approvals and certifications in new markets. These will be achieved through a combination of organic and acquisitive growth.

Dairy

Our aim is to maintain our market leading position in the USA while growing our European business through continued strategic partnerships with key OEM customers and development of our own brand Milk-Rite products. We are also examining opportunities in developing markets which have the potential to deliver growth in the longer term. Innovative new product offerings and continued world class low cost manufacturing excellence enable this business to sustain a consistent record of cash generation.

Other Markets

Our objective for the flexible storage tank business is to continue to develop in both the military and commercial sectors where we see further opportunities in a growing market. The success of the aerosol gasket business will depend on achieving and maintaining lowest cost production and meeting the levels of responsiveness required by our customer base, with the US market a specific target for growth. The strategic objective for our contract mixing operations is one of loss elimination.

PRINCIPLE RISKS AND UNCERTAINTIES

Avon operates in a variety of markets and manages risks inherent in its activities, mitigating these or transferring them to insurers where possible. Like most companies we are exposed to generic external risk factors such as global economic conditions, raw material pricing, political change, legislation, environmental issues, recruitment and retention, terrorism, natural catastrophe and litigation.

The specific risk factors applying to each of our major markets are:

Respiratory Protection

The attraction of this business is the long term nature of the revenue streams. The risks to this are:

New product introduction:

- long development lead times
- development costs not always funded by customer
- uncertainty of successful completion of the development of new leading edge technologies
- uncertainties in the product testing and regulatory approvals process

Changes in the regulatory environment:

- introduction of new standards
- need for new certifications

Timing and availability of Government funding and award of long term contracts.

Dairy

This is a relatively mature and stable market. The long term risks are the introduction of lower cost competitors and maintaining the balance between our position as supplier to OEM customers and being a supplier direct to the after-market.

Other businesses

The primary risks are our ability to maintain our cost competitiveness from our UK and USA production sites, the narrow customer base for our engineered fabrications and business machines products and our ability to resolve the loss making position of our mixing operation.

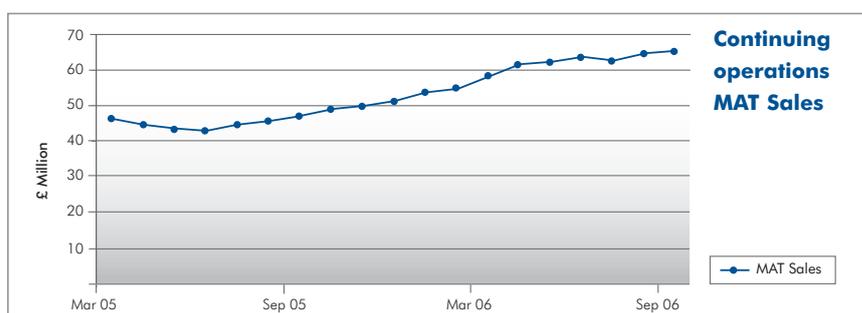
Financial risks

The group is exposed to treasury risks, primarily movements in foreign exchange rates, in particular the USA dollar. Our policies to deal with these risks are explained later. The UK pension scheme size relative to the size of the Group and our ability to fund any deficits that may arise remains a risk despite the defined benefit element of the scheme being closed to new entrants in 2003. Our ability to raise sufficient capital or debt to fund growth is a further risk.

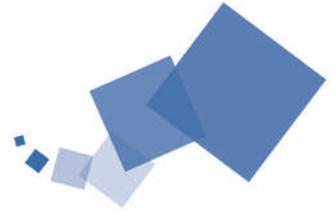
Key Performance Indicators (KPI's)

The Group uses a variety of performance measures, key amongst these, employed consistently by all operations are the following:

KPI	Definition	Link to strategy	Purpose	Source of data	Achievement at 30 September 2006	Target
Sales moving annual total (MAT)	Aggregate of sales for a cumulative 12 month period measured monthly	Sales growth is a strategic objective.	The MAT trend measured on a monthly basis identifies clearly the direction of progress against the objective	Management and statutory accounts	See graph below	Sales greater than £100million pa
Return on sales (ROS)	Operating profit divided by sales expressed as a percentage	Growing businesses which yield higher than average returns is a strategic objective	To measure the profitability of sales	Management and statutory accounts	(3.1)% on continuing operations before exceptional items	An ROS > 10%
Trade working capital (TWC) to sales ratio	Trade working capital (inventory plus trade debtors less trade creditors) expressed as a percentage of annualised sales	Ensuring that the profitable sales growth is cash generative is a strategic objective	To ensure we control working capital	Management and statutory accounts	23.0%	TWC < 15%
Earnings per share (EPS)	Profit after tax divided by the weighted average number of ordinary shares in issue	Ensuring we deliver shareholder value	Measures the management of finance costs and our tax charge	Statutory accounts	(68.9)p	No specific growth target until positive EPS achieved
Avon Rubber world class assessment standard (ARWCAS)	A composite measure including assessments of financial performance, employee satisfaction & training, customer satisfaction and environmental impacts.	Ensuring business excellence in all areas	To ensure we maintain a cost advantage and maximise profitability.	Management accounts, internal measures, self assessment	Minimum 35% Maximum 54% Achievement by business units	ARWCAS > 50 (on a scale of 0-100) for all business units



Operating and Financial Review



FINANCIAL REVIEW

The Group reports full year results for the first time under International Financial Reporting Standards (IFRS). Full details of this restatement were published in May 2006, details of which can be found on our website at <http://www.avon-rubber.com/corporate/reports/ifrs.pdf>.

Results

Continuing operations

Revenue from continuing operations increased by 39% to £65.0m (2005: £46.9m). Gross profit fell in percentage terms from 24.0% to 16.1% primarily due to the impairment of our Mixing facility charged to cost of sales, a reduction in respirator sales and an increase in recoverable development costs on which lower margins are earned. The operating loss decreased from £3.2m in 2005 to £2.5m; however, the operating loss before exceptional charges increased from £1.9m to £2.0m.

The exceptional charges for the year ended 30 September 2006 relate to a restructuring programme at our Hampton Park West facility to reduce its cost base and to the impairment of the loss making Mixing facility in Westbury, offset by a profit on the sale and leaseback of the Hampton Park West site.

After net interest and other finance income the loss before tax was £3.7m (2005: £4.7m). After a tax charge of £2.0m (2005: £1.1m), the loss for the year from continuing operations was £5.7m (2005: £5.8m).

Interest and net debt

Net interest costs increased to £3.4m (2005: £2.5m) with higher global interest rates and higher levels of borrowings through much of the year. This follows the acquisition of International Safety Instruments (ISI) in June 2005 for an initial cash consideration of £11.7m, high levels of capital expenditure in our developing respiratory protection business and the later than expected completion of the sale of our Automotive business. Following this disposal, net debt reduced to £1.1m (2005: £51.7m) at year end.

Cashflow and liquidity

Prior to the effect of disposals and a high level of investment ahead of planned growth, we generated net cash from operating activities of £2.4m (2005: £4.2m). Further investment is planned for 2007, particularly in product development in our respiratory protection business and the working capital associated with planned growth.

Group borrowing facilities at year-end were £16.7m of which £14.0m are committed for a period greater than 1 year. These facilities are used to fund short term treasury needs, including working capital movements and imbalances in flows between the various locations and currencies in which the Group operates.

Taxation

The tax charge relates to tax on profits in our US entities and the de-recognition of tax assets in the UK. Tax credits on losses in the UK are not being recognised until greater certainty exists about the timing of their utilisation. Our tax rate will continue to be higher than the UK normal rate of corporation tax until such time as profits are earned in the UK.

Discontinued operations

The discontinued operations comprising the disposed Automotive business, the disposed business machines operations at Zatec and the closed business machines operation at Hampton Park West, incurred a loss for the year of £13.4m (2005: profit £0.7m). This reflects an operating profit before exceptional items of £5.0m (2005: £8.1m), a loss on disposal of the Automotive operations of £17.4m, a loss on disposal of Zatec of £0.6m, £0.9m in costs relating to the discontinuation of business machine operations in the UK and a tax credit of £0.6m (2005: charge £0.6m).

Earnings/(loss) per share

The loss per share was 68.9p (2005: 19.1p) and the loss per share on continuing operations was 20.1p (2005: 21.9p).

Protection and Engineered Products

Sales revenue from continuing businesses increased by £18.1m to £65.0m (2005: £46.9m).

This growth originated in three main areas. ISI's full year's sales totalled £11.3m (2005: £2.3m post acquisition) even though they suffered from a disappointing second half as a result of delayed Federal grants to fire departments in the US. Avon Engineered Fabrications' sales increased by 83% to £8.4m (2005: £4.6m) reflecting strong growth in our military portable fluid storage tank business. In respiratory protection we experienced an increase in recoverable product development activity and the commencement of respirator sales from our new facility in Cadillac, but lower sales in the UK.

Dairy made modest progress in its mature markets with improvements primarily in the USA. The UK dairy operations stabilised following sales reductions in 2005. The aerosol gasket business grew by 5% with further growth, particularly in the USA, being targeted.

The operating loss before exceptional items from continuing businesses was £2.0m (2005: £1.9m). This loss is shown after absorption of all central costs. Despite Automotive being part of the Group for much of the year no central costs were allocated to this segment. Central costs have been further reduced since the disposal.

The operating loss represents a mixture of profitable stable businesses, businesses investing for growth and loss making operations.

- Our USA based businesses, Hi-Life (dairy), Avon Engineered Fabrications (flexible fabrications) and ISI (SCBA equipment) all made significant profit contributions.
- The respiratory protection businesses are resourced for further growth in respirators and rapid escape hoods. However, in the year, the UK business experienced only a low level of legacy respirator sales.
- Our UK Dairy and Aerosol gasket businesses underperformed due to an unacceptably high cost base which has now been addressed. The Mixing operation incurred a significant loss and central costs were at levels higher than we expect going forward.

The opportunity for improvement clearly lies in delivering the planned revenue growth, particularly in respiratory protection, cost reductions in the UK actioned through the now completed restructuring and elimination of loss making activities.

Discontinued business revenue fell by 15% to £5.5m (2005: £6.5m). Falling revenues at our business machine blades operation resulted in the disposal of Zatec which was completed in September. In addition we closed the business machine roller manufacturing operation in the UK in June, exiting another loss making business in long-term decline. The loss incurred on the discontinued operations (before exceptional items) was £0.9m (2005: £0.7m).

Automotive

Revenue of £160.2m (2005: £186.4m) reflects the reduced trading period of a little over ten months to 11 August, the challenge of growing sales in a generally stable market, price down pressures and a disproportionate exposure in the US market to the traditional Big 3 automotive manufacturers each of whom continued to lose market share. The resulting operating profit (excluding any allocation of central costs) was £5.9m (2005: £2.1m after exceptional operating items of £6.7m). At a trading level therefore, operating profit reduced by £2.9m. As a percentage of sales this is a reduction from 4.7% in 2005 to 3.7% in 2006, reinforcing our belief that we were unlikely to deliver acceptable returns from this business going forward. The reduction in profitability resulted despite significant cost

elimination activities including three facility closures in recent years along with the accompanying charges and associated write-offs.

Publicly announced cuts in production by major US customers, after the disposal was completed, confirm the volatility of the market and support our strategy to exit this area of our business.

Balance sheet

The disposal of the Automotive business and the sale and lease back of the facility at Hampton Park West has transformed the Group balance sheet. Debt has been virtually eliminated with year-end net debt of £1.1m (2005: £51.7m). Intangible assets make up a greater proportion of assets than previously, with our investment in patents, distribution network and goodwill on the ISI acquisition in 2005 and continued investment in extending our respiratory protection product range. Nevertheless our production units remain well invested and we remain committed to low cost manufacturing excellence where we add value. We will continue to manage our working capital to minimise our capital requirements.

The skills and expertise of our employees, the specialised knowledge we have in all areas of our business, our credibility with our major customers and the intellectual property in our products, not all of which are reflected on our balance sheet, will be key elements in delivery of our planned growth.

Pensions

The deficit on our UK pension scheme reduced from £15.2m at 30 September 2005 to £12.2m at 30 September 2006. This reduction has derived from higher asset returns, offset by an increase in liabilities with an assumption of increased longevity. A one off contribution of £1m was made to the scheme during the year. Future cash contributions towards the deficit may be made in consultation with the trustees. Emphasis on management of the scheme is on further risk reductions.

Accounting Policies and Critical Accounting Judgements

These are set out in detail on page 25 of these financial statements.

Operating and Financial Review



INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION

IFRS has been adopted this year and full details were published in May 2006. The most significant changes for the Group have been in the accounting for development costs with increased capitalisation; the identification of and valuation of the constituents of purchased goodwill; the impairment testing of goodwill rather than annual amortisation charges and the accounting for share schemes. The effect of these on the prior years results and financial position are as follows:

Reconciliation of operating profit/(loss) & equity shareholders' funds under UK GAAP to IFRS

Year to 30 Sept 2005

Reconciliation of total operating profit/(loss) as per UK GAAP	
As per UK GAAP	(1,325)
2005 development costs now capitalised	643
Amortisation and impairment costs and other intangibles	(1,244)
Goodwill amortisation	802
Share options	(1,002)
Reduced depreciation on revalued assets	262
Share of profits of joint venture	(111)
As per IFRS	(1,975)

At 30 Sept 2005

Reconciliation of equity shareholders' funds	
As per UK GAAP	55,578
Development costs and other intangibles	1,625
Goodwill amortisation	802
Dividend proposed not yet paid	1,315
Revaluation of fixed assets	(11,649)
Deferred tax adjustment	(737)
As per IFRS	46,934

CAPITAL STRUCTURE AND DIVIDEND

We have undertaken a capital structure review during the year and believe the Group is now poised for a period of organic growth, particularly in respiratory protection. This will require funding for both working capital and new product development. In addition we wish to be in a position to make appropriate acquisitions in pursuit of the Group strategy. There is still a deficit in the pension fund despite improved asset returns in the year, but with the latest valuation taking account of increased life expectancy. As a result the Board is of the opinion that, having taken into account current financing availability and potential debt capacity, any enhanced distribution may inhibit the opportunities for growth. The total dividend for the year has therefore been maintained at 8.5p (2005: 8.5p).

We recognise that this level of dividend is uncovered by current earnings but we are committed to returning to appropriate levels of cover going forward.

ENVIRONMENTAL, EMPLOYEE AND SOCIAL & COMMUNITY ISSUES

These matters are discussed in the Directors' report on page 11.

TREASURY POLICY AND EXCHANGE RATES

The Group uses various types of financial instruments to manage its exposure to market risks which arise from its business operations. The main risks continue to be movements in foreign currency and interest rates.

The Group's exposure to these risks is managed by the Finance Director who reports to the Board.

The Group faces currency exposure on its overseas subsidiaries and is exposed in particular to changes in the US Dollar.

Each subsidiary company hedges significant transactional exposure by entering into forward exchange contracts for known sales and purchases.

The Group reports trading results of overseas companies based on average rates of exchange compared with sterling over the years. This profit and loss translation exposure is not hedged as this is an accounting rather than a cash exposure.

The balance sheets of overseas companies are included in the consolidated balance sheets based on local currencies being translated at the closing rates of exchange. The balance sheet translation exposure has been partially hedged by matching either with foreign currency borrowings within the subsidiaries or with foreign currency borrowings which are held centrally.

At the year-end the asset exposure was not hedged (2005: 77%) due to the low level of borrowings.

As a result of the remaining balance sheet exposure after hedging, the Group was exposed to the following:

1% movement in the US Dollar : impact £0.3 million

The exposure to interest rate fluctuations is protected by obtaining fixed rates of interest. The Group's policy is to keep between 25% and 75% of its borrowings at a fixed rate of interest. The level is intended to lower the impact of a 1% change in interest rate to less than 0.2% of Group turnover.

The Group had none of its borrowings fixed at the year-end (2005: 24%). The current level of fixed rate borrowings is outside the existing targeted range. The low level of borrowings after the disposals during the year are purely to fund short term movements in working capital. These borrowings are consequently for short periods only and are undertaken at current variable rates.

By order of the Board

P.J. Fairbairn, Secretary
Melksham, Wiltshire
19 December 2006



TREVOR BONNER CBE, Non-Executive Chairman Aged 63.
A chartered accountant, he was appointed to the Board in 1994 and became Chairman in February 2001. A former Executive Director of GKN plc, and a former President of both the Society of Motor Manufacturers and Traders and CLEPA (the European Association of Automotive Suppliers), Trevor was made a CBE in the 1996 Birthday Honours List.



TERRY STEAD, Chief Executive Aged 57. He joined the company in 1998, was appointed to the Board as Finance Director in October 1998 and became Chief Executive on 1 July 2005. An honours graduate from Bristol University, he qualified as a chartered accountant with KPMG. He was Group Finance Director of How Group plc having previously worked for several years with Lucas Industries plc in a number of senior finance roles.



PETER SLABBERT, Finance Director Aged 44. Peter joined Avon in May 2000 as Group Financial Controller and was appointed to the Board as Finance Director on 1 July 2005. A Chartered Accountant and a Chartered Management Accountant; Peter joined the company from Tilbury Douglas where he was Divisional Finance Director. Before that he was Group Financial Controller of How Group plc and had worked at Bearing Power International PLC as Finance Director.



STELLA PIRIE OBE, Non-Executive Director Aged 56. Stella was appointed to the Board in March 2005. She began her career as an Auditor at KPMG before becoming Divisional Finance Director and Group Treasurer of Rotork Plc. and then Finance Director of GWR Group Plc. Stella holds a degree in Economics from the University of Manchester and is a Non-Executive Director of Schroder UK Growth Fund Plc, Stroud & Swindon Building Society and UK Trade and Investment. She is also Chairman of Bath Spa University. Stella was awarded the OBE in 1999.



BRIAN DUCKWORTH OBE, Non-Executive Director Aged 57. An Accountant, Mr Duckworth was appointed to the Board in May 2002. Until his retirement in August 2004, he was Managing Director of Severn Trent Water Limited and a Director of Severn Trent plc. Mr Duckworth had been with Severn Trent since 1974. He is also a non-executive director of Redrow plc and White Young Green plc. He is the Senior Independent Director. Brian was awarded the OBE in 2004.

COMMITTEES OF THE BOARD The Chairman and the Non-Executive Directors are members of the Remuneration Committee, the Audit Committee and the Nominations Committee. Mr T.C. Bonner is Chairman of the Nominations Committee. Mrs S.J. Pirie is Chairman of the Audit Committee and Mr B. Duckworth is Chairman of the Remuneration Committee.

Directors' Report

for the year ended 30 September 2006

1 The Directors submit the one hundred and sixteenth annual report and audited financial statements of the Company and Group for the year ended 30 September 2006.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Directors have decided to provide further information about the Group and its businesses in an Operating and Financial Review (OFR) format, although the legal requirement to produce an OFR under the Companies Act 1985 (The Operating and Financial Review and Directors' Report etc.) Regulations 2005 was repealed on 12 January, 2006. The principal objectives of the OFR are to assist stakeholders in assessing the strategies adopted by the Company and the potential for those strategies to succeed.

The Accounting Standards Board (ASB) has produced a reporting statement in relation to OFRs and, whilst the Company has taken into account the requirements of the reporting statement, the Directors have not drafted the OFR with a view to it being fully compliant with the reporting statement.

The OFR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters that are significant to Avon Rubber p.l.c. and its subsidiaries when viewed as a whole. It should be read in conjunction with the consolidated financial statements and the notes thereto on pages 22 to 52.

The principal activities of the Group are the design and manufacture of:

- Components for the automotive industry (until completion of the disposal of Avon Automotive on 11 August 2006).
- Respiratory protection products for defence, police, fire and other emergency services and a range of polymer based products for a variety of markets including dairy, defence, business machines and the aerosol industry.

The business review, including commentary on future developments, is covered on pages 2 to 8.

2 RESULTS AND DIVIDEND

The Group loss for the year after taxation amounts to £19,127,000 (2005: £5,046,000 loss). Full details are set out in the income statement on page 22. An interim dividend of 3.7p per share (2005: 3.7p) was paid on 3 July 2006. The Directors recommend a final dividend of 4.8p per share (2005: 4.8p) making a total of 8.5p per share for the year to 30 September 2006 (2005: 8.5p). The total distribution of dividends for the year to 30 September 2006 is £2,331,000 (2005: £2,294,000).

3 DIRECTORS

The names of the Directors as at 19 December 2006 are set out on page 9.

None of the Directors have a beneficial interest in any contract to which the parent company or any subsidiary was a party during the year. Beneficial interests of Directors, their families and trusts in ordinary shares of the Company can be found on page 17.

As announced to shareholders on 14 December 2006, Mr. T.C Bonner will retire as Chairman of the Board at midnight on 25 January 2007. Mr. Bonner will be succeeded as Chairman by Sir Richard Needham who will commence his appointment on 26 January 2007. The Board is satisfied that Sir Richard Needham will meet the test of independence as set out in the Combined Code, on his appointment. The Board is also satisfied that Mr. B. Duckworth and Mrs. S.J. Pirie are

independent Non-Executive Directors. As disclosed in last year's report, Mr. G.T.E. Priestley resigned as a Director with effect from the conclusion of the 2006 annual general meeting.

Mr. B. Duckworth, Senior Independent Non-Executive Director, retires by rotation and being eligible, offers himself for re-election.

As part of the Board's annual evaluation process, each Director undertook a performance evaluation which included considering the effective contribution of Board members. The Board confirms that Mr. B. Duckworth, who stands for re-election has contributed substantially to the performance of the Board and its committees. The Chairman gives his full support to Mr. Duckworth's offer of re-election and draws the attention of shareholders to his profile on page 9.

All Executive Directors' service contracts with the Company require one year's notice of termination, subject to retirement, currently at age 60. None of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group.

The Company has arranged an appropriate Directors and Officers insurance policy to provide cover in respect of legal action against its Directors.

4 SUBSTANTIAL SHAREHOLDINGS

At 8 December 2006, the following shareholders held 3% or more of the Company's issued ordinary share capital:-

Schroder Investment Management Limited	15.76%
Aberdeen Asset Management Limited	8.08%
Howson Tattershall Invest Council	6.51%
Platinum Fund Managers Limited	5.52%
M&G Investment Management Limited	4.53%
Cavendish Asset Management Limited	4.45%
Henderson Global Investors Limited	3.84%

5 ACQUISITION OF OWN SHARES

No share purchases were made or funded by the Company during the year. As at 8 December 2006 the Employee Share Ownership Trust held 666,190 shares which represents 2.36% of the current issued share capital. As approved at the last annual general meeting the Company has authority to purchase up to 4,216,241 shares subject to certain terms and conditions.

6 POLITICAL AND CHARITABLE CONTRIBUTIONS

No political contributions were made during the year. Contributions for charitable purposes amounted to £22,787 (2005: £26,000) consisting exclusively of numerous small donations to charities including the Wiltshire Scout Council and various school and hospital charities in Michigan.

7 CREDITOR PAYMENT POLICY

Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

For the year ended 30 September 2006, the number of days purchases outstanding at the end of the financial year for the Group was 50 days (2005: 63 days) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. On the same basis the number of days purchases outstanding for the parent company was 53 days (2005: 29 days).

8 RESEARCH AND DEVELOPMENT

The Group continues to utilise its materials expertise to further advance its products and remain at the forefront of technology in the field of polymer technology and materials engineering. The Group maintains its links to key Universities and continues to work with new and existing customers and suppliers to develop its knowledge and product range. As a result of these activities Avon continues to be recognised as a world leader in the understanding of the use of polymer products in its markets.

The Group will use the opportunity presented by the disposal of Avon Automotive to focus its development resources in the core product areas.

9 EMPLOYEES

Our employees are fundamental to the growth and success of our business. An objective of the Group is to attract, retain and develop high performing employees who can facilitate and participate in the Group's pursuit of its strategic aims and add value to the business and to our stakeholders. The Group performance management process links managers' remuneration to achievement of a range of performance targets. The Group seeks to encourage employee consultation, communication and involvement and to promote the development of employees potential through relevant training.

The Group applies policies and procedures which are intended to further diversity in our workforce and ensure that no employee is disadvantaged as a result of discrimination including on grounds of sex, race, religion, disability or age.

10 ENVIRONMENT

The Group is committed to minimising the impact of its operations on the environment. Prior to the disposal of the Automotive business in August 2006, all Automotive operating sites were certified to environmental management systems standard ISO 14001. In addition, the Protection and Engineered Products site at Hampton Park West, Wiltshire and the Mixing facility at Westbury, Wiltshire are also certified to such standard. Our Protection, Dairy and Engineered Fabrications operations in North America operate in compliance with applicable State requirements and are working towards ISO 14001 compliance. The Group encourages initiatives to maximise efficiency, minimise waste and promote recycling. For example, the volume of uncured rubber waste from our Hampton Park West facility sent to licensed landfill, has, since July 2005, reduced by two thirds and is now recycled by incorporation within other products.

11 HEALTH AND SAFETY

The Board recognises the importance of health and safety to the business. Not only does a safe working environment contribute to employee well being, the prevention of personal injury contributes to the running of an efficient business. The Group's stated policy in this area is that management practices and employee work activity will, so far as is reasonably practicable, ensure the health, safety and welfare at work of its employees, contractors and visitors, together with the health and safety of all other persons affected by the business activities of the Group's operations.

All of the Group's businesses maintain health and safety systems that are both compliant with Group policy and appropriate to the business, with the overall objective of providing a safe and healthy working environment.

In terms of performance indicators, at the Hampton Park West facility, accidents involving one shift or more absence, decreased by 27% compared to last year. The site's stated aim is the complete integration of its health and safety management systems so that it is OHSAS 18001 compliant by the end of 2006. The site has also committed to the UK rubber industry's latest five year action plan on health and safety entitled, "Rubbing out Risks". In the US, at ISI there is a learning programme to educate employees on safe working practices and how to avoid injury. At Avon Engineered Fabrications in Mississippi accident rates are down by 22% from last year. None of the Group's facilities have experienced a serious workplace injury in the last year.

12 CORPORATE SOCIAL RESPONSIBILITY

The Directors acknowledge the importance of corporate social and ethical responsibility in the Group's activities and understand the growing emphasis placed on such conduct in the regulatory environment applying to UK companies. Aside from promoting initiatives around lean manufacturing and the reduction in levels of waste and energy use, the Group's stated policy is to direct management practices to:

- Good communication and integrity in our dealings with the communities in which we operate;
- Fostering greater understanding between the Group's businesses and the communities in which they operate; and
- Encouraging employees to participate (where appropriate) in the affairs of the community and professional bodies.

In the UK the Group maintains a fund with the Community Foundation for Wiltshire and Swindon, a charity dedicated to strengthening local communities. The Group Director of Human Resources is a trustee of the Foundation, which targets its grants to make a genuine difference to the lives of local people. This year Avon's fund provided a grant to the West Wiltshire Portage Service which supports development education to children with severe learning disabilities. In the US, the businesses all take an active part in their local Chambers of Commerce and continue to seek to enhance their partnerships with the local community through employee involvement in local charities and business groups.

13 AUDITORS

Each Director confirms that on the date that this report was approved:

- so far as they are aware, there is no relevant audit information of which the auditors are unaware;
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

By order of the Board

P.J. Fairbairn, Secretary
Melksham, Wiltshire
19 December 2006

Corporate Governance

Statement of compliance with the Combined Code

The Company believes in high standards of corporate governance and the Board is accountable to shareholders for the Group's performance in this area. This statement describes how the Group is applying the relevant principles of governance, as set out in the Combined Code of Corporate Governance dated July 2003 ("the Code") which is available on the website of the Financial Reporting Council ("FRC").

The Code was further revised by the FRC in June 2006 (the "Revised Code") but the Listing Rules are not expected to require the application of the Revised Code until 2007. However, companies are being encouraged by the FRC to adopt the Revised Code voluntarily for accounting years commencing on or after 1 November 2006. The Company intends to apply the Revised Code on a voluntary basis for the financial year commencing 1 October 2006.

The Company is a "smaller company" for the purposes of the Code and in consequence certain provisions of the Code either do not apply to the Company or may be judged to be disproportionate or less relevant in its case.

The Company has complied throughout the year with the applicable provisions of the Combined Code other than as explained in this report.

This statement will address separately three main subject areas of the Code namely the Board, Relations with Shareholders and Accountability and Audit. Directors' remuneration is dealt with in the Remuneration Report on pages 14 to 19.

The Board confirms that it has been applying the procedures necessary to implement the "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull Report").

1 THE BOARD

The Board of Avon Rubber p.l.c. currently comprises a Chairman, two independent Non-Executive Directors ("the Non-Executive Directors"), and two Executive Directors who are the Chief Executive and the Finance Director. All Directors submit themselves for re-election at regular intervals of not more than three years and are subject to re-election at their first Annual General Meeting after appointment. Additionally, the Non-Executive Directors are appointed by the Board for specific terms and reappointment is not automatic. Non-Executive Directors submit themselves for annual re-election if they have served for more than 9 years since first election.

As announced to shareholders, the Board has approved the appointment of Sir Richard Needham for the position of Chairman of the Company following the retirement of Mr. T.C. Bonner on 25 January 2007.

Biographies of the directors appear on page 9. These illustrate the range of business and financial experience which the Board is able to call upon. The intention of the Board is that its membership should be well balanced between executives and non-executives and have the appropriate skills and experience. The special position and role of the Chairman under the Code is recognised by the Board and a written statement of the division of responsibilities of the Chairman and Chief Executive has been agreed by the Board. The Chairman is responsible for the leadership of the Board and the Chief Executive manages the Group and has the prime role, with the assistance of the full Board, in developing and implementing business strategy.

One of the roles of the Non-Executive Directors under the leadership of the Chairman is to undertake detailed examination and discussion of strategies proposed by the Executive Directors, so as to ensure that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Group's other stakeholders. The Board has agreed a procedure for meetings of the Non-Executive Directors with and without the Chairman.

An annual performance evaluation was undertaken by the Board in 2006. The Chairman acted as the sponsor of the evaluation process and each Director was required to score a questionnaire for review by the Board and appropriate Committees. The Group Director of Human Resources acted as facilitator to the Board and issues arising

from the process were incorporated into the Board's business as appropriate. Within the evaluation exercise, the Board considered a range of issues including Board training needs analysis, the assessment of social and environmental implications within the decision making process and improvements to the risk management process.

The Non-Executive Directors fully review the Group's operational performance and the Board as a whole has, with a view to reinforcing its oversight and control, reserved a list of powers solely to itself which are not to be delegated to management. This list is regularly reviewed and updated and includes appropriate strategic, financial, organisational and compliance issues embracing; approval of high level announcements, circulars and the report and accounts, strategy and management issues. Examples include, the approval of the annual operating budget and the three year plan, the extension of the Group's activities into new business and geographic areas (or their cessation), changes to the corporate or capital structure, financial issues, including changes in accounting policy, the approval of dividends and bank facilities and guarantees, changes to the constitution of the Board, approval of significant contracts, for example the acquisition or disposal of assets worth more than, or the exposure of the Company to a risk greater than £1 million.

All Directors have full and timely access to all relevant information and the Board meets regularly with appropriate contact between meetings. All Directors receive an induction on joining the Board. When appointed, Non-Executive Directors are made aware of and acknowledge their ability to meet the time commitments necessary to fulfill their Board and Committee duties. Procedures are in place, which have been agreed by the Board, for Directors, where necessary in the furtherance of their duties, to take independent professional advice at the Company's expense and all Directors have access to the Company Secretary. The Company Secretary is responsible to the Board for ensuring that all Board procedures are complied with. The removal of the Secretary is a decision for the Board as a whole.

Of particular importance in a governance context are three committees of the Board, namely the Remuneration Committee, the Nominations Committee and the Audit Committee. The members of the Committees comprise the Chairman and all the Non-Executive Directors. Notwithstanding the restrictions contained in the Code on the constitution of the Audit and Remuneration Committees, the Non-Executive Directors have expressed a strong wish that the Chairman should remain a member of each of the Audit and Remuneration Committees. The Non-Executive Directors regard the Chairman as adding significant value to the deliberations of these Committees. Furthermore, the Chairman's membership of the Remuneration Committee accords with the proposals on Remuneration Committee membership set out in the Revised Code. As disclosed in the last report Mrs. S.J. Pirie succeeded Mr. T.C. Bonner as Chairman of the Audit Committee on 1 January 2006. The Board is satisfied that Mrs. Pirie has recent relevant financial experience and her profile appears on page 9. Mr. Bonner will, until his retirement, continue to chair the Nominations Committee and Mr. B. Duckworth, who succeeded Mr. G.T.E. Priestley as Senior Independent Non-Executive Director on Mr. Priestley's retirement on 19 January 2006, is Chairman of the Remuneration Committee.

The Remuneration Committee's principal responsibilities are to decide on remuneration policy on behalf of the Board and to determine remuneration packages and other terms and conditions of employment, including appropriate performance related benefits, for Executive Directors and other senior executives. The Chief Executive and the Group Director of Human Resources attend meetings of the Committee by invitation, but are absent when issues relating to each of them are discussed.

The Nominations Committee, to which the Chief Executive is normally invited, reviews the Board structure, identifies candidates to fill vacancies on the Board and addresses board level succession planning. In identifying potential candidates for positions as non-executive directors, the Committee has full regard to the principles of the Code regarding the independence of non-executive directors.

The Audit Committee meets at least three times a year. The meetings are also attended by representatives of the Group's external auditors and the Executive Directors. At all meetings time is allowed for the Audit Committee to discuss issues with the external auditors with no Executive Directors present. As well as reviewing draft preliminary and interim statements, the Committee reviews significant financial reporting judgements contained in formal announcements by the Company. The Committee also considers external and internal audit reports and monitors all services provided by, and fees payable to, the external auditors to ensure that potential conflicts of interest are considered and that an objective and professional relationship is maintained. As part of its work, and in line with its terms of reference, the Committee particularly considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control, including the internal management of risk, as identified in the Turnbull Report. The Committee reviews and monitors the independence and objectivity of the external auditors and the effectiveness of the audit process. The Committee also keeps under review the nature, extent, objectivity and cost of non-audit services provided by the external auditors.

Meetings during year ended 30 September 2006

	Full Board	Audit Committee	Nominations Committee	Remuneration Committee		
Total number of meetings in 12 months to 30/9/06						
T.C. Bonner	16	3	2	5		
G.T.E. Priestley	2	1	–	1	Resigned	19 Jan 2006
B. Duckworth	14	3	2	5		
S.J. Pirie	15	3	2	5		
T.K.P. Stead	16	*3	*2	*5		
P.C. Slabbert	14	*3	–	–		

* Attendance by invitation.

Copies of the terms of reference of the Nominations, Remuneration and Audit Committees and the terms and conditions of appointment of the Non-Executive Directors are available on the Company's website or from the Company Secretary on request.

2 RELATIONS WITH SHAREHOLDERS

The Directors regard communications with shareholders as extremely important. In terms of published materials the Company issues a detailed annual report and accounts and, at the half year, an interim report. Dialogue takes place regularly with institutional shareholders and general presentations are given following the preliminary and interim results. Shareholders have the opportunity to ask questions at the annual general meeting and also have the opportunity to leave written questions for the responses of the Directors. The Directors meet informally with shareholders after the annual general meeting and respond throughout the year to correspondence from individual shareholders on a wide range of issues. Annual general meetings provide a venue for the shareholders to meet new Non-Executive Directors in addition to any other meetings shareholders may request.

The Non-Executive Directors, having considered the Code with regard to relations with shareholders, are of the view that it is most appropriate for the shareholders to have regular dialogue with the Executive Directors. However, should shareholders have concerns, which they feel cannot be resolved through normal shareholder meetings, the Chairman, Senior Independent Non-Executive Director and the Non-Executive Director may be contacted upon request through the Company Secretary.

At the annual general meeting on 25 January 2007, the Board will be following the recommendations in the Revised Code regarding the constructive use of annual general meetings; in particular, the agenda will again include a presentation by the Chief Executive on aspects of the Group's business.

3 ACCOUNTABILITY AND AUDIT

The Combined Code requires that Directors review the effectiveness of the Group's system of internal controls. The scope of this review covers all controls including financial, operational and compliance controls as well as risk management. As indicated earlier, the Board has put in place the procedures necessary to implement the guidance contained within the Turnbull Report on internal control and the Audit Committee has responsibility to review, monitor and make policy and recommendations to the Board upon all such matters.

The Directors acknowledge their responsibility for the Group's system of internal control. The Board keeps this system under continuous review and formally considers its content and its effectiveness on an annual basis. Such a system can provide only reasonable, and not absolute, assurance against material misstatements or losses. The following paragraphs describe relevant key procedures within the Group's systems of internal control and the process by which the Directors have reviewed their effectiveness.

- Systems exist throughout the Group which provide for the creation of three year plans and annual budgets; monthly reports enable the Board to compare performance against budget and to take action where appropriate.

- Prior to completion of the sale of the Automotive division in August 2006 an internal audit function was in place with staff covering the Group's worldwide operations from a base in the U.K. Following review by the Audit Committee and discussion with the external auditor, the Committee has agreed that an internal audit process will be undertaken by appropriate members of the finance team who will investigate specific risks identified by the Risk Management Steering Group. This process will be reviewed by the Board and monitored by the Audit Committee.

- Procedures are in place to identify any major business risks and to evaluate their potential impact on the Group. These risks are described within the operating and financial review. The Board carries out an annual review of the key risks facing the Group. In the year under review, the risk assessments carried out both at business level and at main board level continued to be reviewed and strengthened as part of the Board's ongoing response to the guidance contained within the Turnbull Report.

- A Risk Management Steering Group is in place which includes in its membership one Executive Director. Its remit is to apply an 'Enterprise Risk Management' approach to the Group's analysis of risk to ensure that risks identified by the Board or by the business units are being assessed effectively and analysed and that actions are introduced to eliminate, minimise, control or transfer the risk (or the effect thereof) as appropriate.

- There is a clearly defined delegation of authority from the Board to the business units, with appropriate reporting lines to individual Executive Directors.

- There are procedures for the authorisation of capital expenditure and investment, together with procedures for post-completion appraisal.

- Internal controls are in existence which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

- The Board has issued a Policy and Code on Business Conduct which reinforces the importance of the internal control framework within the Group. The Policy and Code includes a whistle-blowing procedure whereby individuals may raise concerns in matters of financial reporting or other matters directly with the Audit Committee which will ensure independent investigation and follow up action. The Policy and Code is reviewed annually.

- Although the Board itself retains the ultimate power and authority in relation to decision making, the Audit Committee meets at least three times a year with management and external auditors to review specific accounting, reporting and financial control matters. This Committee also reviews the interim, preliminary and annual statements and has primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors.

4 GOING CONCERN

After making appropriate enquiries, the Directors have, at the time of approving the financial statements, formed a judgement that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Remuneration Report

for the year ended 30 September 2006

Part 1 of this Report sets out the Company's remuneration policies for the Directors for the year ended 30 September 2006. These policies are likely to continue to apply in future years, unless there are specific reasons for change, in which case shareholders will be informed appropriately. Part 2 sets out audited details of the remuneration received by Directors during the year ended 30 September 2006.

PART 1. REMUNERATION POLICIES (NOT SUBJECT TO AUDIT)

EXECUTIVE DIRECTORS

Remuneration Committee

The Remuneration Committee is responsible for developing the remuneration policy for the Executive Directors and for determining their individual packages and terms of service. In establishing this policy, and to ensure consistency with the arrangements for other management levels, the Remuneration Committee has regard to pay and conditions throughout the Group and is also responsible for the remuneration packages of key senior executives. The Committee's terms of reference are available on the Company's website and on request from the Company Secretary.

The Committee met five times during the year and currently comprises Mr. B. Duckworth (Chairman), Mr. T.C. Bonner, and Mrs. S J Pirie. As disclosed in last year's report, Mr. Priestley retired from the Board at the conclusion of the Annual General Meeting on 19 January 2006 and was replaced as Chairman of the Committee by Mr. B. Duckworth. The Chief Executive, Mr. T.K.P. Stead and the Group Director of Human Resources, Mr. S.D. Wright, are invited to attend meetings except when matters relating to their own remuneration arrangements are discussed. The Committee also uses external independent professional advisers. Towers Perrin are the Committee's remuneration consultants and provide advice primarily on competitive market levels and on the performance-related elements of the Executive Directors' remuneration. Towers Perrin also provide administration services to the Company's employee share trust. The Company has appointed KPMG as its independent actuarial advisors on pension matters and KPMG will provide the Committee with information on executive pension arrangements when required. Linklaters and TLT, the Company's appointed legal advisers, provide legal advice when required. New Bridge Street Consultants provide performance monitoring data for review by the Committee in relation to the Performance Share Plan (see below).

Guiding Policy

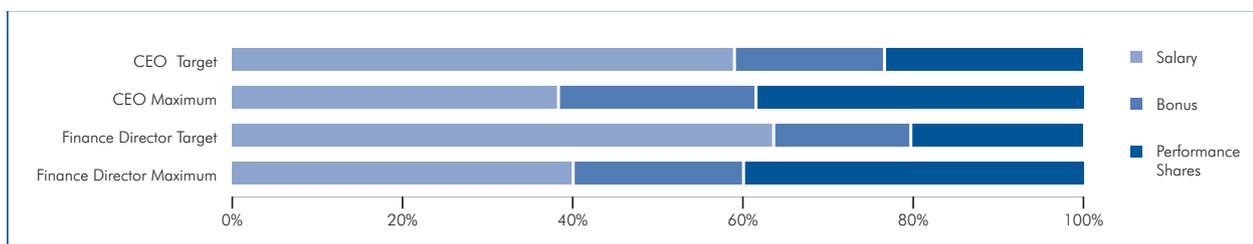
The Remuneration Committee's aim is to ensure that the structure of the Executive Directors' remuneration supports the achievement of the Company's performance objectives and, in turn, increases shareholder value. The Remuneration Committee reviews executive remuneration arrangements regularly to ensure that they remain effective, competitive and appropriate to the Group's circumstances and prospects, and monitors incentive award levels and consequent company liabilities.

The Company's guiding policy on Executive Directors' remuneration is that:

- the Executive Directors' remuneration packages should take into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical success factor in the setting of incentives, both in the short and the long term; and
- the overall level of salary, incentives, pension and other benefits should be competitive when compared with other manufacturing companies of a similar size and global spread.

Remuneration Elements

The Executive Directors' remuneration comprises four elements: annual salary; short-term bonus; longer-term performance shares and other benefits (including pension). In line with the Company's emphasis on performance-related pay, bonus payments are dependent on the Company's annual financial performance, while the receipt of performance shares is dependent on enhanced relative returns to shareholders over a three-year period. The arrangements are similar for other senior executive team members. The following table illustrates the proportion of variable pay to base salary for the Chief Executive and the Finance Director for 2006/7, assuming target or maximum performance related pay.



Proportion of Performance Related Pay to Salary

Salary

In setting salary levels, the Remuneration Committee considers the experience and responsibility of the Executive Directors and their personal performance during the previous year. The Committee also takes account of salary levels within other companies of a similar size and global spread, as well as the rates of increases for other employees within the Company. The Remuneration Committee reviews salaries with effect from January each year.

The annual base salary as at 30 September 2006 for Mr. T.K.P. Stead is £215,000 and for Mr. P.C. Slabbert is £128,000.

Annual Bonus

The Executive Directors' annual bonus arrangements are focused on the achievement of the Company's short-term financial objectives. Before the start of each year, the Remuneration Committee sets financial performance targets for the year. These are designed to be stretching and for the bonus for 2006/7 will be based on two measures, profit before interest and tax and cash flow. The maximum bonus potential for 2006/7 is 60% of salary for the Chief Executive and 50% of salary for the Finance Director. Bonus payments are not pensionable.

Performance Share Plan

The Remuneration Committee introduced this Plan with shareholder approval at the AGM in 2002. It came into effect from 1 October 2001, with the aim of motivating Executive Directors and other senior executives to achieve performance superior to the Company's peers and to deliver sustainable improvement in shareholder returns. This is reflected in the Plan's performance condition which compares the total return received by the Company's shareholders in terms of share price growth and dividends (total shareholder return or "TSR") over a period of time with the total returns received by shareholders in companies within a pre-determined and appropriate comparator group.

Under the Plan, Executive Directors and a limited number of other senior executives receive conditional share awards (which may be in the form of nil-cost options) in respect of the Company's shares. The actual number of shares that each participant receives depends on the Company's TSR performance over a three-year period compared to the TSR performance within a comparator group comprising the FTSE SmallCap index, excluding investment trusts. Over a three year period:

- If the Company's TSR performance is below the median TSR of the comparator group, no shares will vest.
- If the Company's TSR performance is equal to the median TSR of the comparator group, 40% of the shares may vest.
- If the Company's TSR performance is equal to, or exceeds, the upper quartile TSR of the comparator group 100% of the shares may vest.
- If the Company's TSR performance is between the median and upper quartile TSR of the comparator group, shares may vest on a pro-rata basis.

The above schedule reflects the Remuneration Committee's intention to reward only TSR performance which outperforms the comparator group. In addition, the Committee may reduce the number of shares which will vest or decide that no shares will vest if it considers that the financial performance of the Company or the performance of the participant does not justify vesting.

The maximum value that can be granted under the Plan in any year is 100% of salary. It is the Remuneration Committee's current intention that, as before, only the Chief Executive should receive the maximum conditional grant, with the Finance Director receiving 80% of salary.

As reported last year, the Remuneration Committee determined that the 2002/3 conditional award should not vest.

The Company's TSR performance in respect of the 2003/4 conditional award did not exceed the median performance of the comparator group, as calculated by New Bridge Street Consultants. The Committee determined in October 2006, therefore, that the award should not vest.

Shareholding Guidelines

Under shareholding guidelines approved during 2004, Executive Directors and other senior executives participating in the Performance Share Plan during the year are required to build up and retain a shareholding in the Company. For Executive Directors the shareholding requirement is equivalent to 1.5 times base salary and for senior executives the shareholding requirement is equivalent to 1.0 times base salary. The Executive Directors and senior executives are required to retain a portion of any awards that vest under the Performance Share Plan until their respective shareholding guideline is met.

Dilution

The Company reviews the awards of shares made under the various all-employee and executive share plans in terms of their effect on dilution limits. In respect of the 5% and 10% limits recommended by the Association of British Insurers, the relevant percentages were 1.09% and 4.81% respectively based on the issued share capital at 30 September 2006. It has been the Company's practice to buy shares in the market through an Employee Share Ownership Trust in order to meet its liability for shares awarded under the Performance Share Plan. At 30 September 2006 there were 666,190 shares held in the Employee Share Ownership Trust which, in the Remuneration Committee's opinion, are adequate to cover the number of shares considered likely to vest in relation to awards granted under the Performance Share Plan to date.

Pension and other benefits

The current Executive Directors (Mr. T.K.P. Stead and Mr. P.C. Slabbert) are both based in the UK and are members of the Senior Executive Section of the Avon Rubber Retirement and Death Benefits Plan. This provides members with a defined level of benefit on retirement depending on length of service and earnings. Members can receive a pension of up to two-thirds of pensionable salary on retirement from age 60, provided the minimum service requirement of 20 years has been met. On death in service, a lump sum of four times pensionable salary is paid, along with a spouses' pension of one half of the member's prospective pension. When an Executive Director dies after retirement, a spouse's pension of one half of the member's pension is paid. Directors' basic salaries are the only pensionable element of their remuneration packages. The Executive Directors, like all members, are required to make contributions to the scheme at a rate of 7.5% of salary.

In line with Company policy for new employees in the UK, any UK-based Executive Directors joining the Company with effect from 1 February 2003 will be offered defined contribution arrangements.

Remuneration Report *continued*
for the year ended 30 September 2006

The Company has reviewed the pension arrangements it provides to UK-based Executive Directors as a result of the UK legislation introduced in April 2006 affecting the taxation of pensions, in particular removing the earnings cap and introducing a lifetime allowance. As a result of the removal of the earnings cap, a pension supplement in respect of salary above the cap is no longer required for Mr T. K. P. Stead.

Executive Directors are entitled to participate in employee healthcare plans and to receive a car allowance and related expenses. Executive Directors are also entitled to participate in the Company's Inland Revenue approved Sharesave Option Scheme, which is open to all UK employees with three months continuous service and to which no performance conditions are attached.

Neither of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group. The Remuneration Committee will establish a policy on the treatment of any fees received by Executive Directors in respect of such non-executive roles when required.

Contracts

The Company's policy is that Executive Directors should normally be employed on a contract which may be terminated either by the Company or the Executive Director giving 12 months notice and which otherwise expires on retirement, currently at age 60. The Company may terminate the contract early without cause by making a payment in lieu of notice by monthly instalments of salary and benefits to a maximum of 12 months, with reductions for any amounts received from providing services to others during this period.

The Remuneration Committee may vary these terms if the particular circumstances surrounding the appointment of a new Executive Director demand it. The Remuneration Committee strongly endorses the obligation on an Executive Director to mitigate any loss on early termination and will seek to reduce the amount payable on termination where it is appropriate to do so. The Committee will also take care to ensure that, while meeting its contractual obligations, poor performance is not rewarded. The Executive Directors' contracts contain early termination provisions consistent with the policy outlined above.

The table below summarises key details in respect of each Executive Director's contract.

	Contract date	Years to expected retirement	Company notice period	Executive notice period
T.K.P. Stead	4 July 2005	3	12 months	12 months
P.C. Slabbert	4 July 2005	16	12 months	12 months

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman and Non-Executive Directors receive a fixed fee in cash for their services. Fee levels are determined by the Board in light of market research and advice provided by Hanson Green, which also provides services in connection with the proposed recruitment of new Non-Executive Directors. Fee levels are reviewed from time to time. The Chairman and the Non-Executive Directors do not participate in any Board discussions or vote on their own remuneration, nor do they participate in any incentive or benefit plans.

The Chairman and the Non-Executive Directors each have a letter of appointment which specifies an initial period of appointment. The initial period for Mr. Duckworth is 5 years. The initial period for Mrs. Pirie is 3 years and Mr. Bonner's current period of appointment is also for a period of three years. Sir Richard Needham's appointment is for an initial period of three years subject to annual review. Chairman and Non-Executive Director appointments are subject to Board approval and election by shareholders at the annual general meeting following appointment and, thereafter, re-election by rotation every three years. The Chairman and any Non-Executive Director who has served for more than 9 years since first election are subject to annual re-election by shareholders. There are no provisions for compensation payments on early termination in the Chairman's and the Non-Executive Directors' letters of appointment. The date of each appointment is set out below, together with the date of their last re-election.

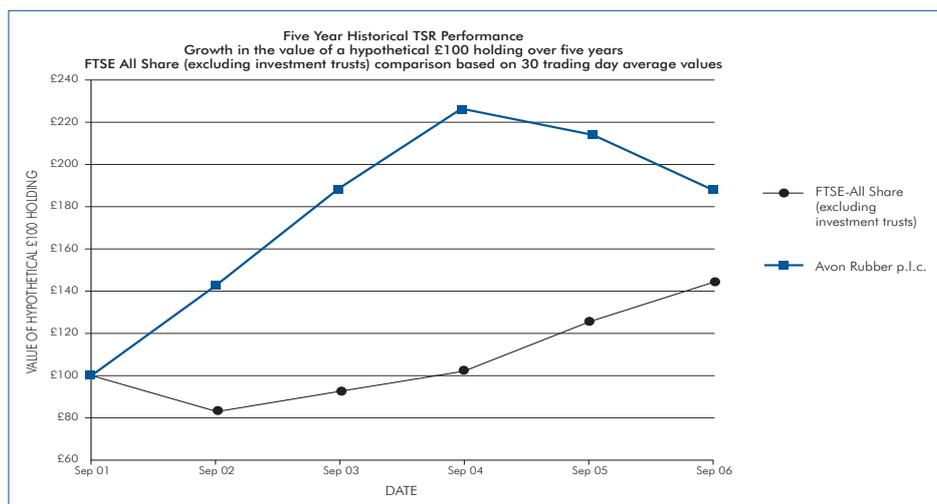
	Date of initial appointment	Date of last re-election
T.C. Bonner CBE (Appointed Chairman 8 Feb 2001)	5 September 1994	19 January 2006
Sir Richard Needham**	Effective 26 January 2007	–
G.T.E. Priestley*	1 February 1998	22 January 2004
B. Duckworth OBE	14 May 2002	20 January 2005
S.J. Pirie OBE	1 March 2005	19 January 2006

* Mr. G.T.E. Priestley resigned as a Director with effect from the end of the annual general meeting on 19 January 2006.

** Sir Richard Needham's appointment was announced to shareholders on 14 December 2006.

PERFORMANCE GRAPH

As required by regulations on director's remuneration, the following graph illustrates the total return, in terms of share price growth and dividends, on a notional investment of £100 in the Company over the last five years relative to the FTSE All Share Index (excluding investment trusts). This index was chosen by the Remuneration Committee as a competitive indicator of general UK market performance.



DIRECTORS' INTERESTS

Beneficial interests of Directors, their families and trusts in ordinary shares of the Company were:

	At the end of the year	At the beginning of the year
T.C. Bonner CBE	12,500	7,500
B. Duckworth OBE	6,000	6,000
S.J. Pirie OBE	5,000	5,000
G.T.E. Priestley*	N/A	12,000
P.C. Slabbert	22,833	22,082
T.K.P. Stead	59,608	58,857

* Mr. G.T.E. Priestley resigned as a Director on 19 January 2006.

Additionally, the Company has operated a Qualifying Employee Share Ownership Trust ("Quest") which was used to deliver shares to employees exercising their options under the Sharesave Option Scheme. By virtue of their participation, or potential participation, in that Scheme, Mr. P.C. Slabbert and Mr. T.K.P. Stead had an interest in the shares held by the Quest at 30 September 2006. At that date 396 shares were held in the Quest (2005: 55,712 shares).

The register of Directors' interests contains details of Directors' shareholdings and share options.

Except for the purchase by Mr. B. Duckworth of 25,000 shares on 14 December 2006 at the price of 154 pence, there were no movements in Directors' shareholdings between the end of the financial year and 19 December 2006.

Additional information

As previously anticipated in the shareholder circular issued in connection with the Extraordinary General Meeting of 13 June 2006, Mr. L.J. Richards, a former Executive Director of the Company, and other members of the Avon Automotive management team received a payment from the Company on successful completion of the disposal of Avon Automotive. In the case of Mr. L.J. Richards, this payment was £311,458. Under the terms of these payments, Mr. L.J. Richards and any other member of the Avon Automotive management team who had been granted conditional awards under the Performance Share Plan, relinquished all rights to those awards. The terms of the transaction with Mr. L.J. Richards were confirmed to the UK Listing Authority by ING Corporate Finance as being fair and reasonable so far as the shareholders were concerned.

In addition, the two executive directors were paid one-off bonuses as a reward for the successful disposal of Avon Automotive. Mr. T.K.P. Stead was awarded £30,000 and Mr. P.C. Slabbert was awarded £20,000, in each case before tax. The Remuneration Committee approved these payments and considered them appropriate given the importance of the transaction in the successful development of the Group's strategy.

PART 2. DETAILS OF REMUNERATION (AUDITABLE INFORMATION)

The following information has been audited by the Company's auditors PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985.

Directors' emoluments

	Basic salary & fees £'000	Other benefits* £'000	Bonus** £'000	Compensation for loss of office £'000	Total 2006 £'000	Total 2005 £'000
Directors holding office throughout 2005 and 2006						
T.C. Bonner CBE (Chairman)	60	–	–	–	60	58
B. Duckworth OBE (Non-Executive)	34	–	–	–	34	29
T.K.P. Stead (highest paid Director)	207	48	95	–	350	208
Total 2006	301	48	95	–	444	–
Total 2005	247	48	–	–	–	295

Appointments & resignations

N.A.P. Carson (Non-Executive) (resigned 20.1.05)	–	–	–	–	–	8
S.J. Pirie OBE (Non-Executive) (appointed 1.3.05)	34	–	–	–	34	17
G.T.E. Priestley (Deputy Chairman) (resigned 19.1.06)	12	–	–	–	12	39
L.J. Richards (resigned 20.7.05)	–	–	–	–	–	121
P.C. Slabbert (appointed 1.7.05)	124	19	52	–	195	34
S.J. Stone (resigned 31.8.05)	–	–	–	–	–	350***
S.J. Willcox (resigned 30.9.05)	–	–	–	–	–	432***
Total 2006	471	67	147	–	685	–
Total 2005	823	105	4	364	–	1,296

* Other benefits are described in Part 1 on pages 15 and 16.

** These amounts include the one-off bonuses awarded to Mr. T.K.P. Stead (£30,000) and Mr. P.C. Slabbert (£20,000) as a reward for the successful disposal of Avon Automotive. These payments are explained on page 17. The additional bonus reflects the achievement of cashflow targets which are explained on page 15.

No Director waived emoluments in respect of the year ended 30 September 2006 (2005: Nil).

*** These amounts include compensation payments for loss of office of £194,000 for Mr. S. J. Stone and £170,000 for Mr. S. J. Willcox which were paid during the year ended 30 September 2005, as reported last year.

Executive Directors' pensions

The Stock Exchange Listing Rules require the disclosure of certain additional information relating to the pensions of Executive Directors under defined benefit schemes. This information is set out below.

	T.K.P. Stead	P.C. Slabbert
Accrued entitlement as at 30 September 2006	£30,598p.a.	£24,175p.a.
Increase in accrued entitlement over the period	£6,094p.a.	£8,712p.a.
Contributions paid by each Director over the period	£12,079	£9,600
Transfer value at 30 September 2005	£382,498	£124,803
Transfer value at 30 September 2006 or date of retirement if earlier	£541,739	£227,850
Increase in the transfer value over the year (net of Director's contributions)	£147,162	£93,447
Increase in accrued entitlement over the period (excluding inflation of 3.1%)	£5,432p.a.	£8,294p.a.
Transfer value of increase in accrued pension (net of Director's contributions)	£84,096	£68,575

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits. They do not represent sums payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration.

The accrued entitlement shown is the amount that would be paid each year at normal retirement age, based on service to the end of the current year. The accrued lump sum, under the defined benefit scheme, for the highest paid director at 30 September 2006 was £138,438 (2005: £55,134).

Performance Share Plan 2002 ("the 2002 Scheme")

For grants of options or conditional awards made to date pursuant to the 2002 Scheme, the performance condition has been based on the Company's TSR relative to the TSR of a comparator group, comprising the FTSE SmallCap companies (excluding investment trusts).

A list of the number of shares under option granted at nil cost, to Executive Directors and senior employees, prior to 30 September 2006 and following approval of the 2002 Scheme by shareholders, is set out below:-

	Granted * 2002/3 (for the qualifying period ending 30 Sept 2005)	Granted ** 2003/4 (for the qualifying period ending 30 Sep 2006)	Granted 2004/5 (for the qualifying period ending 30 Sept 2007)	Granted 2005/6 (for the qualifying period ending 30 Sept 2008)	Lapsed in year	Total option awards outstanding at 30 Sep 2006
P.C. Slabbert	33,553	24,828	29,295	55,652	(33,553)	109,775
T.K.P. Stead	67,368	50,759	59,948	115,942	(67,368)	226,649
Former Directors***	218,750	158,823	185,107	–	(218,750)	343,930
Other senior employees	175,900	150,779	186,268	196,755	(413,443)	296,259
					****	*****

* As explained in last year's report the awards granted under the 2002/3 cycle did not vest during the year.

** The Remuneration Committee agreed on 18 October 2006 that the 2003/4 awards did not vest as the Company's TSR performance did not exceed the median performance of the comparator group.

*** This row includes awards granted to Mr. S.J. Willcox (retired 30 September 2005) and Mr. S.J. Stone (retired 31 August 2005). All their awards will be pro-rated and may vest at the end of the relevant qualifying periods, subject to satisfaction of the applicable measures.

**** This figure includes all outstanding conditional awards in respect of 237,543 shares granted to Mr. L.J. Richards and any other member of the Avon Automotive management team who had been granted awards under the Performance Share Plan, which lapsed during the year as explained on page 17.

***** This figure includes 188,759 in respect of key management as defined in note 9 to the financial statements.

The market price at the award date for the 2005/6 award was 172.5 pence, for the 2004/5 award was 192.0 pence, for the 2003/4 award was 217.5 pence, for the 2002/3 award was 154.5 pence.

Sharesave option schemes

	Number of options at 30 Sep 05	Granted during the year	Exercised during the year	Lapsed during the year	Number of options at 30 Sep 06	Exercise price (£)	Exercisable during 6 months commencing
P.C. Slabbert	751	–	(751)	–	–	1.33	–
T.K.P. Stead	751	–	(751)	–	–	1.33	–
	4,913	–	–	–	4,913	1.72	July 2008

As at 30 September 2006, other employees held options over 585,450 ordinary shares, exercisable between 2006 and 2012, at option prices ranging from £1.00 to £4.52.

All options are over ordinary shares of £1 each.

The market price when Mr. T.K.P. Stead and Mr. P.C. Slabbert exercised their options was £1.91.

As at 30 September 2006, the market price of Avon Rubber p.l.c. shares was £1.795 (2005: £2.14). During the year the highest and lowest market prices were £2.14 and £1.585 respectively.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Brian Duckworth
Chairman of the Remuneration Committee
19 December 2006.

Statement of Directors' Responsibilities

for the year ended 30 September 2006

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 the Group and of the profit or loss of the Group 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 that the Group Financial Statements comply with International Financial Reporting Standards, and that the Company Financial Statements comply with UK GAAP;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

P.J. Fairbairn, Secretary
Melksham, Wiltshire
19 December 2006.

Independent Auditors' Report

for the year ended 30 September 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVON RUBBER p.l.c.

We have audited the group financial statements of Avon Rubber p.l.c. for the year ended 30 September 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Avon Rubber p.l.c. for the year ended 30 September 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group 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 group 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 group financial statements.

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 September 2006 and of its loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
19 December 2006

Consolidated Income Statement

for the year ended 30 September 2006

	Note	2006 £'000	2005 £'000
Continuing operations			
Revenue	1	65,042	46,860
Cost of sales		(54,541)	(35,591)
Gross profit		10,501	11,269
Distribution costs		(4,414)	(2,613)
Administrative expenses		(9,662)	(12,728)
Other operating income		1,114	874
Operating loss from continuing operations	1	(2,461)	(3,198)
Operating loss is analysed as:			
Before exceptional items		(1,997)	(1,909)
Exceptional operating items	2	(464)	(1,289)
Interest receivable	3	123	193
Interest payable	3	(3,493)	(2,670)
Other finance income	3	2,151	1,010
Loss before tax	4	(3,680)	(4,665)
Taxation	5	(2,045)	(1,116)
Loss for the year from continuing operations		(5,725)	(5,781)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	6	(13,402)	735
Loss for the year		(19,127)	(5,046)
(Loss)/profit attributable to minority interest		(209)	115
Loss attributable to equity shareholders	22	(18,918)	(5,161)
		(19,127)	(5,046)
Loss per share	8		
Basic		(68.9)p	(19.1)p
Diluted		(68.9)p	(19.1)p
Loss per share from continuing operations	8		
Basic		(20.1)p	(21.9)p
Diluted		(20.1)p	(21.9)p

Consolidated Statement of Recognised Income and Expense

for the year ended 30 September 2006

	2006 £'000	2005 £'000
Loss for the year	(19,127)	(5,046)
Actuarial (loss)/gain recognised in retirement benefit schemes	(2,075)	3,974
Movement on deferred tax relating to retirement benefit liabilities	115	(6,275)
Net exchange differences offset in reserves	(809)	606
Net losses not recognised in income statement	(2,769)	(1,695)
Total recognised expense for the year	(21,896)	(6,741)
Attributable to:		
Equity shareholders	(21,687)	(6,856)
Minority interest	(209)	115
Total recognised expense for the year	(21,896)	(6,741)
Adoption of IAS 39 attributable to:		
Equity shareholders	(12)	–
Minority interest	–	–
	(12)	–

Consolidated Balance Sheet

at 30 September 2006

	Note	2006 £'000	2005 £'000
Assets			
Non-current assets			
Intangible assets	11	17,054	30,296
Property, plant and equipment	12	20,864	71,294
Investments accounted for using equity method	13	–	146
Trade and other receivables	14	–	604
Deferred tax assets	5	1,101	3,208
		39,019	105,548
Current assets			
Inventories	15	11,257	24,004
Trade and other receivables	14	15,530	51,227
Derivative financial instruments	16	–	24
Cash and cash equivalents	17	6,893	8,919
		33,680	84,174
Liabilities			
Current liabilities			
Borrowings	19	8,000	35,884
Trade and other payables	18	18,505	47,270
Current tax liabilities		736	1,153
		27,241	84,307
Net current assets/(liabilities)			
		6,439	(133)
Non-current liabilities			
Borrowings	19	–	24,754
Deferred tax liabilities	5	2,293	3,116
Other non-current liabilities	18	1,071	1,155
Retirement benefit obligations	10	14,598	23,076
Provisions for liabilities and charges	20	3,426	5,615
		21,388	57,716
Net assets			
		24,070	47,699
Shareholders' equity			
Ordinary shares	21	28,275	28,121
Share premium account	21	34,191	34,070
Revaluation reserve	23	–	1,751
Capital redemption reserve	23	500	500
Translation reserve	23	(203)	606
Retained earnings	22	(39,249)	(18,114)
Equity shareholders' funds			
Minority interests (equity interests)	24	23,514	46,934
		556	765
Total equity			
		24,070	47,699

These financial statements were approved by the board of directors on 19 December 2006 and were signed on its behalf by:

T.C. Bonner CBE
T.K.P. Stead

Consolidated Cash Flow Statement

for the year ended 30 September 2006

	Note	2006 £'000	2005 £'000
Cash flows from operating activities			
Cash generated from operations	25	7,835	8,613
Interest received		123	234
Interest paid		(3,890)	(2,568)
Tax paid		(1,679)	(2,062)
Net cash from operating activities		2,389	4,217
Cash flows from investing activities			
Proceeds from sale of subsidiaries (less cash transferred)		51,972	–
Acquisition of subsidiaries (net of cash acquired)		–	(11,395)
Proceeds from sale of property, plant and equipment		12,970	988
Purchase of property, plant and equipment		(8,963)	(8,060)
Purchase of intangible assets		(5,791)	(4,774)
Net cash from/(used in) investing activities		50,188	(23,241)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		275	297
Net movements in loans and finance leases		(51,264)	20,058
Decrease/(increase) in derivatives		24	(12)
Dividends paid to shareholders		(2,332)	(2,293)
Net cash (used in)/from financing activities		(53,297)	18,050
Effects of exchange rate changes		(89)	68
Net decrease in cash and equivalents		(809)	(906)
Cash and cash equivalents at beginning of the year		7,702	8,608
Cash and cash equivalents at end of the year	26	6,893	7,702

These financial statements were approved by the board of directors on 19 December 2006 and were signed on its behalf by:

T.C. Bonner CBE
T.K.P. Stead

Accounting Policies and Critical Accounting Judgements

for the year ended 30 September 2006

ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important Group policies, which have been applied on a consistent basis is set out below.

BASIS OF PREPARATION

These financial statements are the first financial statements following the adoption of International Financial Reporting Standards (IFRS). As the Group has not previously published a full set of financial statements under IFRS the content of these statements has been expanded to include summarised reconciliations to those previously reported under UK GAAP for the year ended 30 September 2005 (note 29).

The financial information has been prepared in accordance with all International Financial Reporting Standards and IFRS interpretations that had been published by 30 September 2006 and apply to accounting periods beginning on or after 1 January 2005. The standards used are those endorsed by the EU together with those standards and interpretations that have been issued by the IASB (International Accounting Standards Board) but had not been endorsed by the EU by 30 September 2006. The 2005 comparative information has, as permitted by the exemption in IFRS 1, not been prepared in accordance with IAS 32 "Financial instruments: Disclosure and presentation" and IAS 39 "Financial instruments: Recognition and measurement".

IFRS 1 EXEMPTIONS

IFRS 1 First-time adoption of International Financial Reporting Standards sets out the procedures the Group must follow when it adopts IFRS for the first time as the basis for preparing the consolidated financial statements. The Group is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS as at 1 October 2004. The standard allows a number of exceptions to this general principle to assist groups in their transition to reporting under IFRS.

The Group will take the following exemptions:

Business combinations:

Business combinations prior to 1 October 2004 will not be restated. This includes the exemption not to apply, IAS 21 "The Effects of Changes in Foreign Exchange Rates" to goodwill arising from these business combinations. As a result goodwill arising from acquisitions that occurred prior to the transition date will remain as stated under UK GAAP. IFRS 3 "Business Combinations" will be applied prospectively from 1 October 2004.

Freehold Property - Fair value as deemed cost:

Under the options available within IFRS 1 the Group has chosen to measure certain of its freehold properties on a fair value basis and adopt this valuation as deemed cost as at the date of transition, 1 October 2004. The valuation was undertaken by DTZ Debenham Tie Leung Limited, Chartered Surveyors.

Share-based payments:

The Group has applied IFRS 2 "Share-based Payment" retrospectively to equity-settled awards made after 7 November 2002 that has not vested at 1 January 2005.

Financial instruments:

The Group has chosen to take advantage of the one year exemption of financial instruments standards - IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement." As a result the IFRS restated figures for the year to 30 September 2005 continue to account for financial instruments in accordance with UK GAAP. The Group has adopted these standards prospectively from 30 September 2005. There is not expected to be a significant impact as a result of adopting these standards.

Cumulative translation differences:

IAS 21 "The Effects of Changes in Foreign Exchange Rates" requires annual translation differences arising on the opening net assets and net profit or loss of each foreign subsidiary to be treated as a separate component of shareholders' equity, and the cumulative net surplus / deficit for each subsidiary carried forward and added to / subtracted from any gains / losses on the future disposal of that subsidiary. The Group has taken the option to set these cumulative gains / losses at zero as at the date of transition to IFRS. Any gains and losses recognised in the income statement on subsequent disposals of foreign operations will therefore include only those translation differences arising after 1 October 2004, the IFRS transition date.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Group and its subsidiaries.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration plus costs directly attributable to the acquisition. The excess of the cost of the acquisition over the Group's share of the fair value of the net identifiable assets of the subsidiary acquired is recorded as goodwill. Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

FOREIGN CURRENCIES

The Group's presentation currency is sterling. The results and financial position of all subsidiaries and associates that have a functional currency different from sterling are translated into sterling as follows:

- assets and liabilities are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at average rates and all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold, the cumulative amount of such exchange difference is recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets or liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying hedges.

REVENUE

Revenue comprises the fair value for the sale of goods and services, net of trade discounts and sales related taxes. Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, and when collectability of the related receivables is reasonably assured, which is usually where title passes or a separately identifiable phase of a contract or development has been completed and accepted by the customer.

SEGMENTAL REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Group's primary segment is by business as this is the dominant source and nature of Avon's risks and returns. The secondary reporting format comprises the geographic segment.

EMPLOYEE BENEFITS

Pension obligations and post-retirement benefits.

The Company has both defined benefit and defined contribution plans.

The defined benefit plan's liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial

assumptions are recognised in full in the period in which they occur, outside of the income statement and are presented in the statement of recognised income and expense. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period. The scheme is now closed to new entrants.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Contributions are expensed as incurred.

The balance sheet includes post retirement obligations in respect of overseas subsidiaries where different arrangements are adopted to provide post-retirement benefits.

Share based compensation

The Company operates an equity settled share based compensation plan and an employee Sharesave Option Scheme. The fair value of the employee services received in exchange for the grant of shares or share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or share options granted, excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). Fair value is determined by reference to option pricing models, principally the Black-Scholes Model.

The Company has applied the requirements of IFRS 2 "Share-based Payment". In accordance with the transitional provisions, IFRS 2 has been applied only to grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

The intrinsic value of earlier grants remain charged to the income statement, as previously required under UK GAAP.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Identifiable net assets include intangible assets other than goodwill. Any such intangible assets are amortised over their expected future lives unless they are regarded as having an indefinite life, in which case they are not amortised, but subjected to annual impairment testing in a similar manner to goodwill.

Since the transition to IFRS, goodwill arising from acquisitions of subsidiaries after 3 October 1998 is included in intangible assets, is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill arising from acquisitions of subsidiaries before 3 October 1998, which was set against reserves in the year of acquisition under UK GAAP, has not been reinstated and is not included in determining any subsequent profit or loss on disposal of the related entity.

Goodwill is tested for impairment at least annually or whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

RESEARCH AND DEVELOPMENT

In accordance with IAS 38 "Intangible Assets", expenditure in respect of the development of new products where the outcome is assessed as being reasonably certain as regards viability and technical feasibility, such expenditure is capitalised and amortised over the expected useful life of the development. The capitalised costs are amortised over the estimated period of sale for each product, commencing in the year sales of the product are first made. Development costs capitalised are tested for impairment at least annually or whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for research and development are not recognised.

PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost or deemed cost where IFRS 1 exemptions have been applied, less accumulated depreciation and any recognised impairment losses.

Land is not depreciated. Depreciation is provided on other assets estimated to write off the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives.

In general, the rates used are: Freehold and long leasehold buildings - 2%, Short leasehold property - over the period of the lease, plant, machinery etc. - 6% to 50%.

Fixed assets held under finance leases are capitalised and depreciated in accordance with the Company's depreciation policy, or over the lease term, if shorter.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated net realisable value.

FIXED ASSET INVESTMENTS

For investments in joint ventures, the Group's share of the aggregate gross assets and liabilities of the investments is included in the balance sheet and the Group's share of the profit or loss of the joint venture is included in the income statement.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Leases in which a significant portion of the risks and rewards of ownership are passed to the lessee are classified as finance lease.

The sale and leaseback of property, where the sale price is at fair value and substantially all the risks and rewards of ownership are transferred to the purchaser, is treated as an operating lease. The profit or loss on the transaction is recognised immediately and lease payments charged to the income statement on a straight-line basis over the lease term.

RECENT ACCOUNTING DEVELOPMENTS

The following IFRS and IFRIC interpretations have been issued by the IASB and are likely to affect future financial statements. IFRS 7 "Financial Instruments Disclosures" was issued in August 2005 and is required to be implemented by the Company from 1 October 2006. This new standard incorporates the disclosure requirements of IAS 32, which it supersedes and adds further quantitative and qualitative disclosures in relation to financial instruments, and is not expected to have a material effect on the Group's disclosures.

IFRIC 4 "Determining whether an Arrangement contains a lease" was issued in December 2004 and is required to be implemented by the Group from 1 October 2006. The interpretation requires arrangements, which may have the nature, but not the legal form, of a lease to be accounted for in accordance with IAS 17 "Leases". This interpretation is not expected to have a material impact on the Group.

There are a number of other recent standards issued by the IASB which the company has not yet applied. These include: IAS 1 amendment regarding financial instruments and capital and IAS 39 amendments for cash flow hedge accounting and fair value option.

On 30 November 2006, the IASB issued IFRS 8, "Operating segments". IFRS 8 will replace IAS 14, "Segment reporting", and align segment reporting with the requirements of the equivalent US standard SFAS 131, "Disclosures about segments of an enterprise and related information". IFRS 8 will be applied to accounting periods beginning on or after 1 January 2009. It is not available for early adoption until it is endorsed by the EU.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable incremental selling expenses.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at cost after deducting provisions for doubtful debts.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand, highly liquid interest-bearing securities with maturities of three months or less, and bank overdrafts.

PROVISIONS

Provisions are recognised when;

- the Company has a legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Where a leasehold property is vacant, or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller.

TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Deferred tax is provided in full on temporary differences between the carrying amount of the assets and liabilities in the financial statements, and the tax base at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax is calculated using rates expected to apply when the deferred tax liability is settled or the deferred tax asset is realised, determined by the rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset to the extent that they relate to taxes levied by the same tax authority and they are in the same taxable entity, or a group of taxable entities where the tax losses of one entity are used to offset the taxable profits of another.

Income tax is charged or credited in the income statement, except where it relates to items recognised in equity, in which case it is dealt with in equity.

INTEREST PAYABLE

Interest is capitalised gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

DIVIDENDS

Final dividends are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid.

SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion on changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity reserves and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity, the gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in the income statement.

Derivatives embedded in other financial statements or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at their fair value. Unrealised gains and losses on these embedded derivatives are recognised in the income statement.

CRITICAL ACCOUNTING JUDGEMENTS

The Group's principal accounting policies are set out above. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies.

Areas which management believes require the most critical accounting judgements are:

Exceptional items

The Directors consider that items of income or expense which are material and non-recurring by virtue of their nature and amount should be disclosed separately if the financial statements are to fairly present the financial position and financial performance of the Group. The Directors label these items collectively as "exceptional items".

Retirement benefit obligations

The Group operates defined benefit schemes. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years.

The pension cost under IAS 19 is assessed in accordance with the advice of an independent qualified actuary based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the Company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 10 of the financial statements.

Provision for doubtful debts

At each balance sheet date, each subsidiary evaluates the collectability of trade debtors and records provisions for doubtful debts based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ from the estimated levels of recovery, which could impact on operating results positively or negatively.

Inventory provisions

At each balance sheet date, each subsidiary evaluates the recoverability of inventories and records provisions against these based on an assessment of net realisable values. The actual net realisable value of inventory may differ from the estimated realisable values, which could impact on operating results positively or negatively.

Impairment of intangible assets

The Group records all assets and liabilities acquired in business acquisitions, including goodwill, at fair value. Intangible assets which have an indefinite useful life, principally goodwill, are assessed annually for impairment.

The Group is engaged in the development of new products and processes the costs of which are capitalised as intangible assets or tangible fixed assets if, in the opinion of management, there is a reasonable expectation of economic benefits being achieved. The factors considered in making these judgements include the likelihood of future orders and the anticipated volumes, margins and duration associated with these.

Impairment charges are made if there is significant doubt as to the sufficiency of future economic benefits to justify the carrying values of the assets based upon discounted cash flow projections using an appropriate risk weighted discount factor. Rates used were between 10% and 15%.

Provisions

Provisions are made in respect of claims and warranties based on the judgement of management taking into account the nature of the claim/warranty, the range of possible outcomes and the defences open to the company.

Notes to the Financial Statements
for the year ended 30 September 2006

1 SEGMENT INFORMATION

Due to the differing natures of the products and their markets, the Group's primary reporting segment is by business. The secondary reporting format comprises the geographical segments by origin.

Primary reporting format - business segments

Year ended 30 September 2006

	Continuing Protection & Engineered Products £'000	Discontinued Automotive Components £'000	Discontinued Protection & Engineered Products £'000	Discontinued Total £'000	Group £'000
Revenue	65,042				65,042
Segment result before exceptional operating items	(1,997)				(1,997)
Exceptional operating items	(464)				(464)
Segment result after exceptional operating items	(2,461)				(2,461)
Interest receivable	123				123
Interest payable	(3,493)				(3,493)
Other finance income	2,151				2,151
Loss before tax	(3,680)				(3,680)
Taxation	(2,045)				(2,045)
Loss for the year from continuing operations	(5,725)				(5,725)
Loss for the year from discontinued operations		(10,922)	(2,480)	(13,402)	(13,402)
Loss for the year	(5,725)	(10,922)	(2,480)	(13,402)	(19,127)
Loss attributable to minority interest					(209)
Loss attributable to equity shareholders					(18,918)
					(19,127)
Segment assets	72,699				72,699
Segment liabilities	48,629				48,629
Other segment items					
Capital expenditure - property, plant and equipment	6,115	2,952	7	2,959	9,074
- intangible assets	4,987	1,508	-	1,508	6,495
Depreciation	1,803	4,763	284	5,047	6,850
Amortisation of intangibles	1,132	1,108	20	1,128	2,260
Year ended 30 September 2005					
Revenue	46,860				46,860
Segment result before exceptional operating items	(1,909)				(1,909)
Exceptional operating items	(1,289)				(1,289)
Segment result after exceptional operating items	(3,198)				(3,198)
Interest receivable	193				193
Interest payable	(2,670)				(2,670)
Other finance income	1,010				1,010
Loss before tax	(4,665)				(4,665)
Taxation	(1,116)				(1,116)
Loss for the year from continuing operations	(5,781)				(5,781)
Profit/(loss) for the year from discontinued operations		1,579	(844)	735	735
(Loss)/profit for the year	(5,781)	1,579	(844)	735	(5,046)

1 SEGMENT INFORMATION (continued)

Year ended 30 September 2005 continued

	Continuing Protection & Engineered Products £'000	Discontinued Automotive Components £'000	Discontinued Protection & Engineered Products £'000	Discontinued Total £'000	Group £'000
Profit attributable to minority interest					115
Loss attributable to equity shareholders					(5,161)
					(5,046)
Segment assets	60,762	116,764	3,277	120,041	180,803
Unallocated assets	8,919	–	–	–	8,919
Total assets	69,681	116,764	3,277	120,041	189,722
Segment liabilities	39,605	41,185	595	41,780	81,385
Unallocated liabilities	60,638	–	–	–	60,638
Total liabilities	100,243	41,185	595	41,780	142,023
Other segment items					
Capital expenditure - property, plant and equipment	2,716	5,005	31	5,036	7,752
- intangible assets	3,305	2,105	–	2,105	5,410
Depreciation	1,948	5,521	192	5,713	7,661
Amortisation of intangibles	454	2,288	24	2,312	2,766

Secondary reporting format - geographical segments

Year ended 30 September 2006

	Europe £'000	North America £'000	Group £'000
Revenue	22,266	42,776	65,042
Segment assets	31,371	41,328	72,699
Capital expenditure - property, plant and equipment	2,728	6,346	9,074
- intangible assets	2,352	4,143	6,495

Year ended 30 September 2005

	Europe £'000	North America £'000	Group £'000
Revenue	23,942	22,918	46,860
Segment assets	121,694	68,028	189,722
Capital expenditure - property, plant and equipment	3,926	3,826	7,752
- intangible assets	3,026	2,384	5,410

2 EXCEPTIONAL OPERATING ITEMS

The exceptional operating items comprise:

	2006 £'000	2005 £'000
Profit on disposal of fixed assets	4,415	–
Fixed asset impairment	(3,442)	–
Other operating charges - continuing	(1,437)	(1,289)
Exceptional operating items - continuing	(464)	(1,289)
Other operating charges - discontinued	(917)	(6,869)
	(1,381)	(8,158)

The profit on disposal of fixed assets relates to the profit on the sale and leaseback of the facility at Hampton Park West, Melksham, UK. The fixed asset impairment relates to our UK mixing facility (See note 12). Both these are included in the Protection Engineered Products continuing business segment and European secondary segment.

The other operating charges relate to the restructuring of our UK Protection & Engineered Products continuing operations (£1,437,000) and the costs associated with the discontinuance of business machine products manufactured in the UK (£917,000).

The other operating charges in 2005 relate to the restructuring of the Group's European Automotive operations including the factory closure of Calaf, Spain and the reorganisation of the Group's central and divisional structures.

In the Consolidated Income Statement, cost of sales includes £3,009,000 of the exceptional operating items relating to the impairment of plant and equipment. The balance of the impairment of £433,000 is included within administrative expenses together with the profit on the disposal of fixed assets of £4,415,000 and the other operating charges on continuing business of £1,437,000 disclosed above.

The tax effect of the exceptional items in 2006 is nil.

3 INTEREST AND SIMILAR CHARGES

	2006 £'000	2005 £'000
Bank loans and overdrafts	(2,907)	(1,851)
US dollar private placement	(509)	(760)
Amortisation of loan issue costs	(18)	(21)
Other interest charges	(59)	(38)
Total interest payable	(3,493)	(2,670)
Interest receivable	123	193
	(3,370)	(2,477)

Other finance income represents the excess of the expected return on pension plan assets over the interest cost relating to retirement benefit obligations.

	2006 £'000	2005 £'000
Interest Cost: UK Scheme	(12,345)	(12,707)
Expected return on plan assets: UK Scheme	14,943	14,070
Other finance cost: USA Scheme	(447)	(353)
	2,151	1,010

4 LOSS BEFORE TAXATION

	2006 £'000	2005 £'000
Operating losses are shown after crediting:		
Rent receivable	88	106
Gain on foreign exchange	–	47
Profit on disposal of tangible fixed assets	3,832	119
and after charging:		
Employee benefits	76,484	80,675
Charge relating to employee share schemes	323	382
Depreciation on tangible fixed assets		
owned assets	6,746	7,544
leased assets	104	117
Amortisation of intangibles	2,260	2,766
Research and development	2,913	4,280
Loss on foreign exchange	327	–
Operating leases		
plant and machinery	618	626
other assets	1,424	1,347
Services provided to the group (including its overseas subsidiaries) by the group's auditors		
Audit fees in respect of the audit of the accounts of the parent company and consolidation	60	120
Audit fees in respect of the audit of the accounts of subsidiaries of the company	135	294
	195	414
Services in respect of business restructuring	434	–
Other services relating to taxation	186	327
Services relating to corporate finance transactions	–	100
Other business advisory services	320	193
Total fees	1,135	1,034

5 TAXATION

	2006 £'000	2005 £'000
UK prior year adjustment to current tax	99	(86)
Overseas current tax	2,165	671
Overseas prior year adjustment to current tax	(396)	24
Deferred tax - current year	(1,703)	(369)
Deferred tax - prior year adjustment	1,880	876
	2,045	1,116

In addition to the total tax charged to the income statement, a deferred tax credit of £115,000 (2005 charge of £6,275,000) has been recognised directly in equity during the year.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the standard UK tax rate applicable to losses of the consolidated entities as follows:

	2006 £'000	2005 £'000
Loss before tax	(3,680)	(4,665)
Loss before tax at the standard rate of 30% (2005: 30%)	(1,104)	(1,400)
Permanent differences	(270)	(253)
Losses for which no deferred tax was recognised	1,578	2,108
Adjustments to tax charge in respect of previous periods	1,583	814
Differences in overseas tax rates	258	(153)
Tax charge	2,045	1,116

Deferred tax (assets) and liabilities

Deferred tax is calculated in full on temporary differences under the liability method using applicable local rates.

Movements on the deferred tax account were:

	2006 £'000	2005 £'000
Asset at the beginning of the year	(92)	(7,855)
Charged to the income statement	177	507
(Credited) to the income statement on discontinued operations	(224)	–
(Credited)/charged to the statement of recognised income and expense	(115)	6,275
Exchange differences	70	(69)
Balances arising on acquisitions	–	1,050
Balances transferred on disposals	1,376	–
Liability/(asset) at the end of the year	1,192	(92)

Deferred assets have been recognised in respect of temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

Deferred tax liabilities

	Accelerated capital allowances £'000	Other £'000	Total £'000
At 30 September 2004	5,237	–	5,237
Charged to the income statement	(142)	–	(142)
At 30 September 2005	5,095	–	5,095
Charged to the income statement	(1,654)	(222)	(1,876)
Balances transferred on disposals	(3,284)	2,080	(1,204)
At 30 September 2006	157	1,858	2,015

5 TAXATION (continued)

Deferred tax assets

	Tax losses £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 30 September 2004	(4,022)	(8,489)	(581)	(13,092)
Charged to the income statement	1,364	(137)	(578)	649
Charged to the statement of recognised income and expense	–	6,275	–	6,275
Exchange differences	–	(69)	–	(69)
Balances arising on acquisitions	–	–	1,050	1,050
At 30 September 2005	(2,658)	(2,420)	(109)	(5,187)
Charged to the income statement	1,752	(32)	109	1,829
Charged to the statement of recognised income and expense	–	(115)	–	(115)
Exchange differences	–	70	–	70
Balances transferred on disposals	906	1,674	–	2,580
At 30 September 2006	–	(823)	–	(823)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006 £'000	2005 £'000
Deferred income tax assets:		
Deferred tax asset to be recovered after more than 12 months	(215)	(1,741)
Deferred tax asset to be recovered within 12 months	(886)	(1,467)
	(1,101)	(3,208)
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	2,293	3,116
Deferred tax liability to be recovered within 12 months	–	–
	2,293	3,116
Net deferred income tax liabilities/(assets)	1,192	(92)
The Group did not recognise deferred tax assets in respect of the following:		
	2006 £'000	2005 £'000
Losses	(4,158)	(3,459)
Accelerated capital allowances	(1,550)	(385)
Retirement benefit obligations	(3,599)	(4,878)
Other	(305)	(2,321)
	(9,612)	(11,043)

The 2006 unprovided deferred tax asset relates solely to the continuing business in the UK. In 2005 a total of £9,096,000 related to the continuing business in the UK, with the balance relating to European subsidiaries.

6 SALE OF OPERATIONS

The Group's Automotive components business was sold on 11 August 2006. Zatec was sold on 29 September 2006.

	Year ending 30 Sept 2006 £'000	Year ending 30 Sept 2005 £'000
Revenue	165,714	192,875
Operating profit from discontinued operations	4,042	1,223
Operating profit is analysed as:		
Before exceptional items	4,959	8,092
Exceptional operating items	(917)	(6,869)
Share of post tax profits of joint venture	–	78
Taxation on profits from discontinued operations	582	(566)
Loss on disposal	(18,026)	–
(Loss)/profit for the year from discontinued operations	(13,402)	735

The loss on disposal has been calculated as follows:

	Automotive £'000	Zatec £'000
Proceeds from sale	58,729	349
Costs associated with sale	(4,880)	(15)
	53,849	334
Taxation on disposal	–	–
Net proceeds from sale	53,849	334
Net assets disposed of	(69,330)	(979)
	(15,481)	(645)
Other provisions	(1,900)	–
Loss on disposal after tax	(17,381)	(645)

7 DIVIDENDS

	2006 £'000	2005 £'000
Dividends on equity shares:		
Final paid: 4.8p per share (2005: 4.8p per share)	1,315	1,268
Interim paid: 3.7p per share (2005: 3.7p per share)	1,016	1,026
	2,331	2,294

In addition, the Directors are proposing a final dividend in respect of the financial year ending 30 September 2006 of 4.8p per share which will absorb an estimated £1,325,000 of shareholders' funds. In accordance with IFRS the final dividend is not recorded as a liability nor reflected in the income statement.

Dividends payable in respect of 666,190 shares (2005: 666,190) held by an Employee Share Ownership Trust (see note 21) and 396 shares (2005: 55,712) shares held by the QUEST (see note 21) have been waived.

8 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share ownership trust. The company has dilutive potential ordinary shares in respect of the Sharesave Option Scheme (see page 19) and the Performance Share Plan (see page 19). The diluted loss per share is not materially different to the basic loss per share.

Adjusted (loss)/earnings per share have been calculated in addition to basic and diluted figures since, in the opinion of the directors, these provide further information for an understanding of the Group's performance.

Reconciliations of the (loss)/earnings and weighted average number of shares used in the calculations are set out below.

	2006 £'000	2005 £'000
Basic EPS		
Loss attributable to equity shareholders of the Company	(18,918)	(5,161)
Weighted average number of ordinary shares in issue (thousands)	27,455	26,964
Basic loss per share (pence)	(68.9)	(19.1)
EPS from continuing operations		
Loss attributable to equity shareholders of the Company	(18,918)	(5,161)
(Loss)/profit from discontinued operations attributable to equity shareholders of the Company	(13,402)	735
Loss from continuing operations attributable to equity shareholders of the Company	(5,516)	(5,896)
Weighted average number of ordinary shares in issue (thousands)	27,455	26,964
Basic loss per share (pence)	(20.1)	(21.9)
EPS from discontinued operations		
Loss on sale of subsidiaries (net of tax)	(18,026)	–
Pre tax profits from discontinued operation	4,042	1,301
Tax relating to discontinued operations	582	(566)
Loss from discontinued operations attributable to equity shareholders of the Company	(13,402)	735
Weighted average number of ordinary shares in issue (thousands)	27,455	26,964
Basic (loss)/earnings per share (pence)	(48.8)	2.7

9 EMPLOYEES

The total remuneration and associated costs during the year were:

	2006 £'000	2005 £'000
Wages and salaries	61,906	67,335
Social security costs	9,612	10,551
Other pension costs	4,966	2,789
	76,484	80,675

Detailed disclosures of Directors' remuneration and share options are given on pages 18 and 19.

The average number of employees (including Executive Directors) during the year was:

	2006 Number	2005 Number
By business group		
Protection & Engineered Products	870	766
Automotive Components (discontinued operations)	3,199	3,504
	4,069	4,270

At the end of the financial year the total number of employees in the Group was 835 (2005: 4,363)

Key management compensation

	2006 £'000	2005 £'000
Salaries and other employee benefits	988	1,192
Post employment benefits	83	115
Compensation for loss of office	–	364
	1,071	1,671

The key management figures given above include the main board directors plus the Group Director of Human Resources and the Managing Director of the Protection and Respiratory products business.

10 PENSIONS AND OTHER RETIREMENT BENEFITS

The provision for pension liabilities can be analysed as follows:

	U.K. £'000	Other European £'000	USA £'000	2006 Total £'000	2005 Total £'000
Pension deficit	12,247	–	2,351	14,598	23,076
Deferred tax asset	–	–	(823)	(823)	(2,420)
Net pension liability	12,247	–	1,528	13,775	20,656

Full disclosures are provided in respect of UK defined benefit pensions and US post-retirement benefits below.

UK

The Group operates a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The scheme is now closed to new entrants. The assets of the plan are held in separate trustee administered funds and are invested by professional investment managers. The trustee is Avon Rubber Pension Trust Limited, the directors of which are members of the plan. Four of the directors are appointed by the Company and two are elected by the members.

Pension costs are assessed on the advice of an independent consulting actuary using the projected unit method. The funding of the plan is based on regular actuarial valuations. The most recent finalised actuarial valuation of the plan was carried out as at 1 April 2003 when the market value of the plan's assets was £174.0 million. The actuarial value of those assets represented 86% of the value of the benefits which had accrued to members, after allowing for future increases in salaries.

Employer contributions to the plan were 10.3% of salaries throughout the year.

An updated actuarial valuation for IAS 19 purposes was carried out by an independent actuary at 30 September 2006 using the projected unit method.

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

	30 Sept 2006 % p.a.	30 Sept 2005 % p.a.	30 Sept 2004 % p.a.
Inflation	2.80	2.65	2.90
Rate of general long-term increase in salaries	3.30	3.40	3.65
Pension increases post August 2005	2.20	2.00	N/A
Pension increases April 1997 to August 2005	2.80	2.65	2.80
Pension increases pre April 1997	2.80	2.65	2.80
Discount rate for scheme liabilities	5.00	5.00	5.75

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2006	2005
Male	20.6	18.6
Female	23.4	21.5

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows:

	2006	2005
Male	21.3	19.5
Female	24.0	22.5

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 30 September 2006 % p.a.	Value at 30 September 2006 £'000	Long-term rate of return expected at 30 September 2005 % p.a.	Value at 30 September 2005 £'000	Long-term rate of return expected at 30 September 2004 % p.a.	Value at 30 September 2004 £'000
Equities	7.40	178,278	7.40	169,648	8.00	145,408
Property	7.40	1,748	7.40	1,458	8.00	1,770
Government bonds	4.40	66,417	4.40	60,182	4.70	52,530
Other	4.60	3,246	4.60	4,398	3.50	4,140
Average expected long term rate of return/Total fair value of assets	6.57*	249,689	6.58*	235,686	7.06*	203,848

* The overall expected rate of return on scheme assets is a weighted average of the individual expected rates of return on each asset class.

10 PENSIONS AND OTHER RETIREMENT BENEFITS (continued)

Reconciliation of funded status to balance sheet

	Value at 30 September 2006 £'000	Value at 30 September 2005 £'000	Value at 30 September 2004 £'000
Fair value of plan assets	249,689	235,686	203,848
Present value of funded defined benefit obligations	(261,936)	(250,855)	(225,246)
Liability recognised on the balance sheet	(12,247)	(15,169)	(21,398)

Analysis of income statement

	Year ending 30 September 2006 £'000	Year ending 30 September 2005 £'000
Current service cost	1,626	1,776
Past service cost	—	—
Interest cost	12,345	12,707
Expected return on plan assets	(14,943)	(14,070)
Curtailement gain	(1,338)	(220)
(Gain)/expenses recognised in income statement	(2,310)	193

The curtailment gain in 2006 relates to the disposal of the Automotive business and has been included in discontinued operations in the income statement.

Changes to the present value of the defined benefit obligation during the year

	Year ending 30 September 2006 £'000	Year ending 30 September 2005 £'000
Opening defined benefit obligation	250,855	225,246
Current service cost	1,626	1,776
Interest cost	12,345	12,707
Contributions by plan participants	1,009	1,149
Actuarial losses on plan liabilities*	8,331	21,713
Net benefits paid out	(10,892)	(11,516)
Curtailements	(1,338)	(220)
Closing defined benefit obligation	261,936	250,855

* Includes changes to the actuarial assumptions

Changes to the fair value of scheme assets during the year

	Year ending 30 September 2006 £'000	Year ending 30 September 2005 £'000
Opening fair value of plan assets	235,686	203,848
Expected return on plan assets	14,943	14,070
Actuarial gains on plan assets	6,487	26,384
Contributions by the employer	2,456	1,751
Contributions by plan participants	1,009	1,149
Net benefits paid out	(10,892)	(11,516)
Closing fair value of scheme plan	249,689	235,686

Actual return on plan assets

	Year ending 30 September 2006 £'000	Year ending 30 September 2005 £'000
Expected return on plan assets	14,943	14,070
Actuarial gain on plan assets	6,487	26,384
Actual return on plan assets	21,430	40,454

10 PENSIONS AND OTHER RETIREMENT BENEFITS (continued)

Analysis of amounts recognised in statement of recognised income and expense

	Year ending 30 September 2006 £'000	Year ending 30 September 2005 £'000
Total actuarial (losses)/gains	(1,844)	4,671
Change in irrecoverable surplus, effect of limit in para 58(b)	–	–
Total (losses)/gains in SoRIE	(1,844)	4,671
Cumulative amount of gains recognised in SoRIE	2,827	4,671

History of asset values, defined benefit obligation, surplus/(deficit) in scheme and experience gains and losses

	30 September 2006 £'000	30 September 2005 £'000	30 September 2004 £'000
Fair value of plan assets	249,689	235,686	203,848
Defined benefit obligation	(261,936)	(250,855)	(225,246)
Deficit in plan	(12,247)	(15,169)	(21,398)
	Year ending 30 September 2006 £'000	Year ending 30 September 2005 £'000	Year ending 30 September 2004 £'000
Experience gains/(losses) on plan assets	6,487	26,384	6,198
Experience gains/(losses) on plan liabilities	12,072	(768)	(2,507)

In addition, commencing 1 February 2003, a defined contribution scheme has been introduced for new employees within the UK. The cost to the Group in respect of this scheme for the year ended 30 September 2006 was £122,000 (2005: £108,000).

USA post retirement benefits

The Group's USA subsidiaries operate a medical cover scheme under the terms of which retiring employees who have ten years service and their dependants are entitled to medical cover from the date of their retirement for a period of three years, or until they reach the age of 65, whichever is the earlier.

The liabilities of this unfunded benefit scheme were valued by an independent actuary at 1 October 2006, based on the following principal assumptions:

	2006	2005	2004	2003
Discount rate	5.75%	5.25%	5.75%	6.00%
Healthcare cost trend rate	10% reducing to 5.5% by 2009	9.0% reducing to 5.5% by 2009	10.0% reducing to 5.5% by 2009	11.0% reducing to 5.5% by 2009

Analysis of amount charged to operating profit in respect of post retirement benefits

	2006 £'000	2005 £'000
Current service cost	335	269
Past service cost	10	34
Total operating charge	345	303

Movement in provision during the year

	2006 £'000	2005 £'000
Provision at the beginning of the year	(6,915)	(5,906)
Movement:		
Current service cost	(335)	(269)
Contributions	181	235
Past service cost	(10)	(34)
Other finance costs	(447)	(353)
Transferred on sale of subsidiaries	5,077	–
Actuarial loss	(231)	(427)
Exchange difference	329	(161)
Provision at the end of the year	(2,351)	(6,915)
Related deferred tax asset	823	2,420
Net post retirement liability	(1,528)	(4,495)

11 INTANGIBLE ASSETS

	Goodwill £'000	Patents and distribution networks £'000	Development expenditure £'000	Other £'000	Total £'000
At 1 October 2004					
Cost	10,144	–	10,411	2,769	23,324
Accumulated amortisation and impairment	–	–	(3,734)	(1,960)	(5,694)
Net book amount	10,144	–	6,677	809	17,630
Year ended 30 September 2005					
Opening book amount	10,144	–	6,677	809	17,630
Exchange differences	173	–	10	–	183
Acquisitions	5,806	3,338	1,022	103	10,269
Additions	–	–	4,857	553	5,410
Amortisation	–	(74)	(1,999)	(693)	(2,766)
Impairment	–	–	(430)	–	(430)
Closing net book amount	16,123	3,264	10,137	772	30,296
At 30 September 2005					
Cost	16,123	3,338	16,663	3,322	39,446
Accumulated amortisation and impairment	–	(74)	(6,526)	(2,550)	(9,150)
Net book amount	16,123	3,264	10,137	772	30,296
Year ended 30 September 2006					
Opening book amount	16,123	3,264	10,137	772	30,296
Exchange differences	(395)	–	(145)	–	(540)
Additions	–	–	6,495	–	6,495
Disposals	–	–	(982)	(7)	(989)
Disposal of business	(10,027)	–	(5,706)	(215)	(15,948)
Amortisation	–	(265)	(1,476)	(519)	(2,260)
Closing net book amount	5,701	2,999	8,323	31	17,054
At 30 September 2006					
Cost	5,701	3,338	8,671	788	18,498
Accumulated amortisation and impairment	–	(339)	(348)	(757)	(1,444)
Net book amount	5,701	2,999	8,323	31	17,054

The goodwill at 30 September 2006 relates to the acquisition of International Safety Instruments Inc. (ISI) in 2005. This has been tested for impairment in accordance with IAS 36 on a value in use basis, discounting budgeted cash flows for 2007, cash flows from the Group's approved 3 year plan for 2008 and 2009, assuming a constant level of cash flows thereafter, and using a pre-tax discount rate of 15%. No impairment charge has resulted from this test.

Patents are amortised over their expected useful lives of between 12 and 16 years.

Distribution agreements are not amortised, as they are not for fixed periods, but written off in full when agreements are terminated.

Development expenditure is amortised over an average duration of 5 years.

Other intangible assets are primarily computer software which is amortised over an average duration of between 3 and 4 years.

12 PROPERTY, PLANT AND EQUIPMENT

	Freeholds £'000	Long leaseholds £'000	Short leaseholds £'000	Plant and machinery £'000	Total £'000
At 1 October 2004					
Cost or valuation	45,882	1,211	72	126,658	173,823
Accumulated depreciation	(17,654)	(347)	(68)	(83,144)	(101,213)
Net book amount	28,228	864	4	43,514	72,610
Year ended 30 September 2005					
Opening book amount	28,228	864	4	43,514	72,610
Exchange differences	369	2	2	418	791
Acquisitions	–	–	92	746	838
Additions	408	–	23	7,321	7,752
Disposals	(1,701)	(598)	–	(737)	(3,036)
Depreciation charge	(722)	(34)	(5)	(6,900)	(7,661)
Reclassifications	60	–	–	(60)	–
Closing net book amount	26,642	234	116	44,302	71,294
At 30 September 2005					
Cost	44,879	417	190	132,369	177,855
Accumulated depreciation	(18,237)	(183)	(74)	(88,067)	(106,561)
Net book amount	26,642	234	116	44,302	71,294
Year ended 30 September 2006					
Opening book amount	26,642	234	116	44,302	71,294
Exchange differences	(135)	(4)	(5)	(650)	(794)
Additions	407	–	–	8,667	9,074
Disposals	(7,567)	–	–	(1,665)	(9,232)
Impairment	(433)	–	–	(3,009)	(3,442)
Depreciation charge	(679)	(26)	(15)	(6,130)	(6,850)
Disposal of businesses	(11,222)	(204)	(1)	(27,759)	(39,186)
Reclassifications	(2,270)	–	–	2,270	–
Closing net book amount	4,743	–	95	16,026	20,864
At 30 September 2006					
Cost	13,746	–	161	38,338	52,245
Accumulated depreciation	(9,003)	–	(66)	(22,312)	(31,381)
Net book amount	4,743	–	95	16,026	20,864

The impairment charge arises from a review of the mixing facility after the disposal of the Automotive business (a major customer). The property, plant and equipment relating to the mixing facility have been valued at fair value.

13 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	2006 £'000	2005 £'000
At the beginning of the year	146	68
Share of profits for the year	–	78
Disposal	(146)	–
At the end of the year	–	146

The Group's share of the results, assets and liabilities of the joint venture for 2005 were as follows:

	Country of incorporation	Assets £'000	Liabilities £'000	Revenues £'000	Profit £'000	% interest held
2005						
Gold Seal-Avon Polymers PVT	India	664	518	405	111	50

The investment was disposed of during 2006 as part of the sale of Automotive.

14 TRADE AND OTHER RECEIVABLES

	2006 £'000	2005 £'000
Trade receivables	11,289	42,625
Less: provision for impairment of receivables	(80)	(2,559)
Trade receivables - net	11,209	40,066
Prepayments	727	1,463
Other debtors	3,594	10,302
	15,530	51,831
Less non-current portion	–	(604)
Current portion	15,530	51,227

All non-current receivables in 2005 were due within five years from the balance sheet date. Management considers the carrying value of trade and other receivables approximates the fair value.

15 INVENTORIES

	2006 £'000	2005 £'000
Raw materials	5,561	9,865
Work in progress	853	4,536
Finished goods	4,843	9,603
	11,257	24,004

The above numbers include provisions for inventory write downs of £381,000 (2005: 1,958,000).

The cost of inventories recognised as an expense and included in cost of sales amounted to £92,925,000 (2005: £94,334,000) of which £27,603,000 (2005: £19,804,000) relates to continuing business.

16 DERIVATIVE FINANCIAL INSTRUMENTS

	Book value £'000	2006 Fair value £'000	Book value £'000	2005 Fair value £'000
Forward foreign currency contracts	–	–	24	24

17 CASH AND CASH EQUIVALENTS

	2006 £'000	2005 £'000
Cash at bank and in hand	1,823	3,902
Current asset investments	5,070	5,017
	6,893	8,919

Cash at bank and in hand balances are denominated in a number of foreign currencies and earn interest based on national rates. Investments relate to holdings in sterling and US dollar money and bond funds, the returns on which relate to the performance of the underlying assets.

18 TRADE AND OTHER PAYABLES

	2006 £'000	2005 £'000
Trade payables	7,510	30,460
Other taxation and social security	428	3,275
Other creditors	8,233	7,772
Accruals	3,405	6,918
	19,576	48,425
Less non-current portion	(1,071)	(1,155)
Current portion	18,505	47,270

19 BORROWINGS

	2006 £'000	2005 £'000
Current		
Bank loans	8,000	32,260
US dollar private placement	–	2,405
Bank overdrafts	–	1,217
Finance leases	–	2
	8,000	35,884
Non current		
Bank loans	–	19,907
US dollar private placement	–	4,847
	–	24,754
Total borrowings	8,000	60,638
The maturity profile of the Group's borrowings at the year end was as follows:		
In one year or less, or on demand	8,000	35,884
Between 1 and 2 years	–	9,838
Between 2 and 5 years	–	14,916
	8,000	60,638

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006 £'000	2005 £'000
Sterling	8,000	655
US dollars	–	35,714
Euros	–	21,254
Other currencies	–	3,015
	8,000	60,638

19 BORROWINGS (continued)

The Group has the following undrawn committed borrowing facilities:

	Floating rate £'000	Fixed rate £'000	2006 Total £'000	2005 Total £'000
Expiring within one year	2,035	–	2,035	8,078
Expiring between one and two years	6,000	–	6,000	–
Total undrawn committed borrowing facilities	8,035	–	8,035	8,078
Bank loans and overdrafts utilised	8,000	–	8,000	60,631
Utilised in respect of guarantees	642	–	642	1,000
Total Group facilities	16,677	–	16,677	69,709

The effective interest rates at the balance sheet dates were as follows:

	2006 Sterling %	Sterling %	Dollar %	Euro %	2005 Other %
Bank loans	6.5	–	4.7	3.9	2.5
US dollar private placement	–	–	8.5	–	–
Bank overdrafts	–	5.5	–	3.1	2.5

The carrying amounts and fair value of the Group's borrowings are as follows:

	Book value £'000	2006 Fair value £'000	Book value £'000	2005 Fair value £'000
Bank loans and overdrafts under 1 year	8,000	8,000	33,477	33,477
US dollar denominated loan	–	–	7,270	7,347
Bank loans over 1 year	–	–	19,907	19,907
Finance leases	–	–	2	2
	8,000	8,000	60,656	60,733

The 2005 book value of the US dollar private placement is shown in the above table gross of unamortised issue costs of £18,000. For all other financial assets and liabilities the fair value approximates to the net carrying value.

20 PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty provision £'000	Reorganisation provision £'000	Automotive disposal £'000	Total £'000
Balance at 30 September 2005	1,918	3,697	–	5,615
Charged/(credited) to income statement	–	2,211	1,900	4,111
Payments in year	–	(4,382)	–	(4,382)
Transferred on sale of subsidiaries	(1,918)	–	–	(1,918)
Balance at 30 September 2006	–	1,526	1,900	3,426

The costs of the reorganisation have been shown as exceptional items (see note 2).

The reorganisation provision and the provision relating to the disposal of Automotive are expected to be fully utilised during the next year.

The warranty provision was transferred on the disposal of the Automotive business.

21 SHARE CAPITAL

	No of shares	Ordinary shares £'000	2006 Share premium £'000	No of shares	Ordinary shares £'000	2005 Share premium £'000
Authorised						
Ordinary shares of £1 each	37,900,000	37,900	–	37,900,000	37,900	–
Called up allotted and fully paid						
At the beginning of the year	28,121,218	28,121	34,070	27,823,944	27,824	34,070
Proceeds from shares issued pursuant to Savings Related Share Option Schemes	154,066	154	121	297,274	297	–
At the end of the year	28,275,284	28,275	34,191	28,121,218	28,121	34,070

Details of outstanding share options and movements in share options during the year are given in the Remuneration Report on page 19.

At 30 September 2006, a Qualifying Employee Share Ownership Trust ("QUEST") held 396 (2005: 55,712) ordinary shares in the company at a market value of £1.795 per share, all of which were under option to employees. 666,190 (2005: 666,190) ordinary shares are also held by a trust in respect of obligations under the 2002 Performance Share Plan. Dividends on all of these shares have been waived, additionally the QUEST has waived any voting rights.

22 RETAINED EARNINGS

	2006 £'000	2005 £'000
At the beginning of the year	(18,114)	(9,202)
Loss for the year	(18,918)	(5,161)
Dividends paid	(2,331)	(2,294)
Transfer from revaluation reserve	1,751	462
Movement in respect of employee share scheme	323	382
Actuarial (loss)/gain recognised in retirement benefit schemes	(2,075)	3,974
Movement on deferred tax relating to retirement benefit liabilities	115	(6,275)
At the end of the year	(39,249)	(18,114)

23 OTHER RESERVES

	Revaluation reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Total £'000
At 1 October 2004	2,213	500	–	2,713
Transfer from revaluation reserve to income statement	(462)	–	–	(462)
Unrealised exchange differences on overseas investments	–	–	606	606
At 30 September 2005	1,751	500	606	2,857
Transfer from revaluation reserve to income statement	(1,751)	–	–	(1,751)
Unrealised exchange differences on overseas investments	–	–	(809)	(809)
At 30 September 2006	–	500	(203)	297

24 SHAREHOLDERS' FUNDS AND STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	2006 £'000	2005 £'000
At the beginning of the year	46,934	55,405
Loss for the financial year attributable to equity shareholders	(18,918)	(5,161)
Dividends	(2,331)	(2,294)
Actuarial (loss)/gain recognised in retirement benefit schemes	(2,075)	3,974
Movement on deferred tax relating to retirement benefit liabilities	115	(6,275)
Net exchange differences offset in reserves	(809)	606
New share capital subscribed	275	297
Movement in respect of employee share schemes	323	382
At the end of the year	23,514	46,934

25 CASH GENERATED FROM OPERATIONS

	2006 £'000	2005 £'000
Continuing operations		
Loss for the financial year	(5,725)	(5,781)
Adjustments for:		
Tax	2,045	1,116
Depreciation	1,803	1,948
Impairment of fixed assets	3,442	–
Decrease in pension liabilities	(823)	(228)
Amortisation and impairment of intangibles	1,132	454
Amortisation of loan issue cost	83	58
Interest income	(123)	(193)
Interest expense	3,493	2,670
Other finance income	(2,151)	(1,010)
Profit on disposal of property, plant and equipment	(4,391)	(19)
Movement in respect of employee share scheme	323	382
Increase in stocks	(2,907)	(1,875)
Increase in debtors	(3,965)	(1,639)
Increase/(decrease) in creditors and provisions	4,042	(228)
Cash generated from continuing operations	(3,722)	(4,345)

25 CASH GENERATED FROM OPERATIONS (continued)

	2006 £'000	2005 £'000
Discontinued operations		
(Loss)/profit for the financial year	(13,402)	735
Adjustments for:		
Tax	(582)	566
Depreciation	5,047	5,713
Loss on sale of subsidiaries	18,026	–
Amortisation and impairment of intangibles	1,128	2,312
Profit on sale of fixed assets	559	(100)
Decrease in stocks	413	1,020
Decrease/(increase) in debtors	9,900	(2,079)
(Decrease)/increase in creditors and provisions	(9,532)	4,791
Cash generated from discontinued operations	11,557	12,958
Cash generated from operations	7,835	8,613

Cash flows relating to the discontinued operations are as follows:

	2006			2005		
	Automotive Components	Protection Engineered & Products	Discontinued Total	Automotive components	Protection engineered products	Discontinued Total
Cash flows from operating activities	13,011	(1,454)	11,557	13,243	(127)	13,116
Cash flows from investing activities	48,210	(7)	48,203	(6,815)	(31)	(6,846)
Cash flow from financing activities	–	–	–	–	–	–
	61,221	(1,461)	59,760	6,428	(158)	6,270

26 ANALYSIS OF NET DEBT

This note sets out the calculation of net debt, a measure considered important in explaining our financial position.

	As at 1 Oct 2005 £'000	Cash flow £'000	Amortisation of loan issue costs £'000	Exchange movements £'000	Disposals £'000	As at 30 Sept 2006 £'000
Cash at bank and in hand	3,902	68	–	(25)	(2,122)	1,823
Overdrafts	(1,217)	1,226	–	(9)	–	–
Current asset investments classified as cash equivalents	5,017	108	–	(55)	–	5,070
Cash and cash equivalents	7,702	1,402	–	(89)	(2,122)	6,893
Debt due after 1 year	(24,754)	24,754	–	–	–	–
Debt due within 1 year	(34,665)	26,508	(83)	–	240	(8,000)
Finance leases	(2)	2	–	–	–	–
	(51,719)	52,666	(83)	(89)	(1,882)	(1,107)

27 OTHER FINANCIAL COMMITMENTS

	2006 £'000	2005 £'000
Capital expenditure committed	192	1,477

Capital expenditure committed represents the amount contracted at the end of the financial year for which no provision has been made in the financial statements.

The commitments of the Group for non-cancellable operating leases are:

	2006		2005	
	Land and buildings £'000	Other assets £'000	Land and buildings £'000	Other assets £'000
For leases expiring				
Within 1 year	1,581	15	1,646	181
In 2-5 years	4,604	150	3,810	291
Over 5 years	7,295	–	3,657	–
	13,480	165	9,113	472

The majority of leases of land and buildings are subject to rent reviews.

28 SHARE BASED PAYMENTS

The company operates an equity settled share based compensation plan and an employee Sharesave Option Scheme.

Details of these Schemes, awards granted and options outstanding are set out in the remuneration report.

The charge to the Income Statement of £325,000 (2005: £382,000) in respect of Executive and SAYE options granted after 7 November 2002 has been calculated using the Black Scholes pricing model and the following principal assumptions.

	SAYE	2006 PSP	SAYE	2005 PSP
Weighted average fair value	0.52	1.56	0.52	1.60
Key assumptions used:				
Weighted average share price (£)	2.00	1.78	2.00	1.80
Range of exercise prices (£)	1.33-1.69	0.0	1.33-1.69	0.0
Volatility (%)	25	25	25	25
Range of risk-free interest rate (%)	4.13-5.13	4.22-4.54	4.13-5.13	4.22-4.54
Range of expected option term (yrs)	3.0-7.0	3.0	3.0-7.0	3.00
Dividend yield (%)	4.5	4.5	4.5	4.5

29 RECONCILIATION OF OPERATING PROFIT/(LOSS) & EQUITY SHAREHOLDERS' FUNDS UNDER UK GAAP TO IFRS

	Note	2005 £'000
Reconciliation of total operating loss		
As per UK GAAP		(1,325)
2005 development costs now capitalised	d	643
Amortisation and impairment of development costs and other intangibles	d	(1,244)
Goodwill amortisation	a	802
Share options	b	(1,002)
Reduced depreciation on revalued assets	c	262
Share of profits of joint venture		(111)

As per IFRS (1,975)

Reconciliation of equity shareholder funds

As per UK GAAP		55,578
Development costs and other intangibles	d	1,625
Goodwill amortisation	a	802
2005 dividend proposed not yet paid	e	1,315
Revaluation of fixed assets	c	(11,649)
Deferred tax adjustment	i	(737)

As per IFRS 46,934

Reconciliation of equity at 1 October 2004 (Date of transition to IFRS)

Note	UK GAAP Reformatted £'000	IFRS Reclassifications £'000	IFRS Adjustments £'000	IFRS Restated £'000
Assets				
Non-current assets				
Goodwill	10,144			10,144
Intangible assets	d	4,451	809	7,486
Property, plant and equipment	c	85,330	(809)	72,610
Investments accounted for using equity method		68		68
Trade and other receivables		617		617
Deferred tax assets	f, g	795	8,489	9,284
	101,405	8,489	(9,685)	100,209
Current assets				
Inventories		20,983		20,983
Trade and other receivables		43,342		43,342
Financial assets - derivative financial instruments	k		12	12
Cash and cash equivalents		9,885		9,885
	74,210	12	-	74,222
Liabilities				
Current liabilities				
Borrowings		24,641		24,641
Trade and other payables	e	45,274	12	44,018
Current tax liabilities		2,019		2,019
	71,934	12	(1,268)	70,678
Non-current liabilities				
Borrowings		14,931		14,931
Deferred tax liabilities	j	1,500	(71)	1,429
Other non-current liabilities		401		401
Retirement benefit obligations	f, g	19,654	8,489	28,143
Provisions		2,794		2,794
	39,280	8,489	(71)	47,698
Net assets	64,401	-	(8,346)	56,055

29 RECONCILIATION OF OPERATING PROFIT/(LOSS) & EQUITY SHAREHOLDERS' FUNDS UNDER UK GAAP TO IFRS (continued)

	UK GAAP Reformatted £'000	IFRS Reclassifications £'000	IFRS Adjustments £'000	IFRS Restated £'000
Shareholders equity				
Ordinary shares	27,824			27,824
Share premium	34,070			34,070
Revaluation reserve	2,213			2,213
Capital redemption reserve	500			500
Profit and loss account	(856)		(8,346)	(9,202)
Equity shareholders funds	63,751	–	(8,346)	55,405
Minority interests (equity interests)	650			650
Total equity	64,401	–	(8,346)	56,055

Reconciliation of equity at 30 September 2005

Note	UK GAAP Reformatted £'000	IFRS Reclassifications £'000	IFRS Adjustments £'000	IFRS Restated £'000
Assets				
Non-current assets				
Goodwill	18,299		(2,176)	16,123
Intangible assets	7,416	772	5,985	14,173
Property, plant and equipment	83,715	(772)	(11,649)	71,294
Investments accounted for using equity method	146			146
Trade and other receivables	604			604
Deferred tax assets	788	2,420		3,208
	110,968	2,420	(7,840)	105,548
Current assets				
Inventories	24,004			24,004
Trade and other receivables	51,251	(24)		51,227
Financial assets - derivative financial instruments		24		24
Cash and cash equivalents	8,919			8,919
	84,174	–	–	84,174
Liabilities				
Current liabilities				
Borrowings	35,884			35,884
Trade and other payables	48,585		(1,315)	47,270
Current tax liabilities	1,153			1,153
	85,622	–	(1,315)	84,307
Non-current liabilities				
Borrowings	24,754			24,754
Deferred tax liabilities	997		2,119	3,116
Other non-current liabilities	1,155			1,155
Retirement benefit obligations	20,656	2,420		23,076
Provisions	5,615			5,615
	53,177	2,420	2,119	57,716
Net assets	56,343	–	(8,644)	47,699
Shareholders' equity				
Ordinary shares	28,121			28,121
Share premium	34,070			34,070
Revaluation reserve	1,751			1,751
Capital redemption reserve	500			500
Translation reserve	606			606
Profit and loss account	(9,470)		(8,644)	(18,114)
Equity shareholders' funds	55,578	–	(8,644)	46,934
Minority interests (equity interests)	765			765
Total equity	56,343	–	(8,644)	47,699

Explanation of key IFRS adjustments

- a) Under UK GAAP, goodwill on businesses acquired by the Group on or after 3 October 1998 is capitalised and amortised on a straight line basis over its useful economic life. Under IFRS, from 1 October 2004 onwards, goodwill will no longer be amortised, but will instead be subject to annual impairment reviews. All goodwill was tested for impairment at the transition date with no adjustment necessary on transition from UK GAAP to IFRS. Where goodwill is deductible for tax purposes in the relevant jurisdiction, a temporary difference arises and consequently a related deferred tax liability has been recognised under IFRS.
- b) Under UK GAAP, Avon Rubber p.l.c. recognises as an expense the intrinsic value at the date of the award, of options granted under the Performance Share Plan 2002 accrued over the vesting period to the extent that they are projected to vest. No expense is recognised for sharesave option schemes for which UK GAAP permits an exemption. Under IFRS the cost of all share-based payments, based on the fair values of the options or shares at the date of grant and calculated using an appropriate model, is recognised over the vesting period of the award. The Group has used the Black-Scholes model to value equity instruments. Under IFRS 2, a deferred tax asset is calculated in respect of future anticipated tax relief under Schedule 23 FA 2003. Due to the deferred tax position of the group, this deferred tax asset has not been recognised in the IFRS accounts.
- c) Under the options available under IFRS 1 the company has chosen to measure its United Kingdom freehold properties on a fair value basis and adopt this valuation as deemed cost as at the date of transition, 1 October 2004. This valuation was undertaken by DTZ Debenham Tie Leung Limited. This has also resulted in a lower depreciation charge. The change in valuation has led to an increase in the deferred tax asset, both in 2004 and 2005. Due to the deferred tax position of the group, this increased asset has been recognised in part in 2004, but the entry reversed in the 2005 profit and loss account so that no further deferred tax asset is recognised in the 2005 balance sheet.
- d) Under IAS 38 "Intangible Assets", the company is required to capitalise the cost of developments which meet certain recognition criteria, including the technical feasibility of, and probable future economic benefit arising from, the project. This expenditure is then amortised over the anticipated future life of the economic benefits arising and is subject to ongoing impairment reviews. Whereas SSAP13 permits an entity either to recognise development expenditure that meets the conditions for recognition as an asset or to write it off to the profit and loss account, IAS 38 does not permit a choice. If the development expenditure meets the recognition criteria it must be capitalised. As the development costs have historically been treated as a deductible, current year expense for tax purposes in the relevant jurisdictions, a temporary difference arises and a deferred tax liability is created under IFRS.
- e) Under UK GAAP dividends relating to an accounting period but declared after the balance sheet date were recognised as a liability even if the approval of that dividend took place after the balance sheet date. Under IFRS, proposed dividends do not meet the definition of a liability until such time as they have been declared, and in the case of the final dividend, approved by shareholders at the Annual General Meeting.
- f) Under UK GAAP the company had already adopted FRS 17 "Retirement Benefits". Under FRS 17, scheme assets are measured using market values while liabilities are measured using the projected unit method. The operating and financing costs of defined benefit pension schemes are recognised in the profit and loss account as operating costs and finance costs respectively. Variations from expected costs arising from the experience of the plans to changes in actuarial assumptions are recognised immediately in the Statement of Total Recognised Gains and Losses.
- g) The change to IAS 19 "Employee Benefits" does not give rise to any significant change in the basis of accounting for pensions, as Avon Rubber p.l.c. will adopt the option allowed under IAS 19 to take actuarial gains and losses immediately and directly to equity through the Statement of Recognised Income and Expense. Changes are largely confined to presentation, in that retirement benefit scheme surpluses and deficits must be aggregated separately on the face of the balance sheet and shown gross, rather than net, of deferred taxation.
- h) Under IFRS 3, the UK GAAP goodwill arising on the ISI acquisition has been analysed into further intangible assets, namely patents and distribution network. Under IAS 12, no initial recognition exemption is available in respect of these intangible assets as they arise as a result of a business combination. Deferred tax is therefore provided on these intangible assets. Goodwill is then adjusted by the amount of deferred tax so that the total acquisition cost remains unchanged, and there is therefore no impact on the 2005 profit and loss account.
- i) Under UK GAAP computer software costs were capitalised and included within tangible assets. Under IAS 38 computer software costs are now classified as intangible assets.
- j) Other than the adjustments to deferred taxation arising from the IFRS adjustments described in paragraphs a – i above, there are no significant adjustments to either current or deferred tax resulting from the change from UK GAAP to IAS 12.
- k) It has been the practice of the Group to manage its exposures to movements in currency exchange rates and interest rates by use of derivative contracts, namely forward currency contracts. Under IFRS such contracts must be recognised as assets and liabilities on the balance sheet measured at fair value, which is in contrast to UK GAAP accounting. However, as the Group has decided not to hedge account for its derivative financial instruments as permitted under IAS 39, they are accounted for through the income statement.

30 RELATED PARTY TRANSACTIONS

During 2005 the Group purchased International Safety Instruments Inc. (ISI) from the Donald Dawson Family Limited Partnership, an entity controlled by Donald W Dawson. Donald W Dawson continues in his current role as managing director of ISI.

Summary of related party transactions

Dawson Associates - trading \$1,198, 681, ending debtor balance of \$125,094.

Lease payments made to Donald Dawson - \$240,236

Donald Dawson is also due to receive £1.2m in September 2007 as deferred consideration on the sale of ISI to Avon in July 2005. He is not bound to the Company following this date.

31 GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

	Group interest	Country in which incorporated
Held by Parent Company		
Avon Polymer Products Limited		UK
Avon Rubber Overseas Limited		UK
Avon Rubber Pension Trust Limited		UK
Held by Group undertakings		
Avon Engineered Fabrications Inc.		USA
Avon Hi-Life Inc.		USA
Avon Injected Rubber & Plastics Inc.		USA
Avon Milk-Rite Inc.		USA
Avon Protection Systems Inc.		USA
Avon Rubber & Plastics Inc.		USA
Avon Vibration Management Systems Limited		UK
Avon-Ames Limited	51%	UK
International Safety Instruments Inc.		USA
Nova Insurance Limited		Guernsey
PHT Inc.		USA
Undertakings in which the Group has a participating interest		
Longbore Inc.	9%	USA

Shareholdings are ordinary shares and, except where shown, undertakings are wholly owned by the group and operate primarily in their country of incorporation.

All companies have a year ending in September.

Avon Rubber Pension Trust Limited, Nova Insurance Limited and Longbore Inc. are, respectively, a pension fund trustee, an insurer and a pollution remediation contractor. PHT Inc and Avon Rubber & Plastics Inc. are investment holding companies. The activities of all of the other companies listed above are the manufacture and/or distribution of rubber and other polymer-based products.

A number of non-trading and small Group undertakings have been omitted on the grounds of immateriality.

Parent Company Financial Statements Independent Auditors' Report

for the year ended 30 September 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVON RUBBER p.l.c.

We have audited the parent company financial statements of Avon Rubber plc for the year ended 30 September 2006 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group Financial Statements of Avon Rubber p.l.c. for the year ended 30 September 2006.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company'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 parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 September 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
19 December 2006

Parent Company Balance Sheet
at 30 September 2006

	Note	2006		2005 (restated see note 12)
		£'000	£'000	£'000
Fixed assets				
Tangible assets	4		5,277	24,973
Investments	5		72,885	72,885
			78,162	97,858
Current assets				
Debtors - amounts falling due within one year	7	41,612		58,501
Debtors - amounts falling due after more than one year	7	956		–
Cash at bank and in hand		5,616		17,323
Creditors - amounts falling due within one year	8	48,184		75,824
		19,867		40,553
			28,317	35,271
Net current assets			28,317	35,271
Total assets less current liabilities			106,479	133,129
Creditors - amounts falling due after more than one year	9	–		19,907
Provisions for liabilities and charges	10	453		893
			453	20,800
Net assets			106,026	112,329
Capital and reserves				
Share capital	11		28,275	28,121
Share premium account	12		34,191	34,070
Merger reserve	12		–	16,439
Capital redemption reserve	12		500	500
Profit and loss account	12		43,060	33,199
Equity shareholders' funds			106,026	112,329

These financial statements were approved by the board of directors on 19 December 2006 and were signed on its behalf by:

T.C. Bonner CBE
T.K.P. Stead

Parent Company Accounting Policies

for the year ended 30 September 2006

ACCOUNTING POLICIES

Basis of preparation

The accounts have been prepared on a going concern basis and in accordance with the Companies Act 1985, as amended and with all applicable accounting standards in the United Kingdom (UK GAAP) under the historical cost convention modified to include the revaluation of certain properties.

As permitted by Section 230(3) of the Companies Act 1985, the Company's entity profit and loss account and statement of total recognised gains and losses have not been presented.

The Company is exempt under the terms of FRS1 (Revised 1996) "Cash Flow Statements" from the requirement to publish its own cash-flow statement, as its cash-flows are included within the consolidated cash-flow statement of the Group.

CHANGES IN ACCOUNTING POLICIES

The Company has adopted FRS 20 "Share based Payment", FRS 21 "Events after the Balance Sheet Date", FRS 25 "Financial Instruments Disclosure and Presentation", FRS 26 "Financial Instruments Measurement" and FRS 28 "Comparative Amounts" in these financial statements. The adoption of these standards represents a change in accounting policy and the comparative figures have been restated accordingly except where the exemption to restate comparatives has been taken. Details of the effects of prior year adjustments are given in note 12.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

DEFERRED TAXATION

Full provision (on an undiscounted basis) is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the respective tax computations. Deferred tax assets are recognised only to the extent that they are more likely than not to be recovered in the short term.

IMPAIRMENT OF FIXED ASSETS AND GOODWILL

Impairment reviews are undertaken if events or changes in circumstances indicate that the carrying amount of the tangible fixed assets or goodwill may not be recoverable. If the carrying amount exceeds its recoverable amount (being the higher of the value in use and the net realisable value) then the fixed asset or goodwill is written down accordingly. Where recoverable amount are based on value in use discount rates of typically between 10% and 15% are used depending on the risk attached to the underlying asset.

INTEREST PAYABLE

Interest is capitalised gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

LEASED ASSETS

Operating lease rentals are charged against profit over the term of the lease on a straight line basis.

PENSIONS

The Company operates a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed

prior to 31 January 2003. The scheme is now closed to new entrants. Scheme assets are measured using market values while liabilities are measured using the projected unit method. The multi-employer exemption has been taken and no provision has been reflected in the parent company's balance sheet for any deficit arising in respect of pension obligations.

The Company also provide pensions by contributing to defined contribution schemes. The charge in the profit and loss account reflects the contributions paid and payable to these schemes during the period. Full disclosures of the UK pension schemes have been provided in the Group Financial Statements.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions are recognised when a liability exists at the year end that can be measured reliably, there is an obligation to one or more third parties as a result of past transactions or events and there is an obligation to transfer economic benefits in settlement.

Provisions are calculated based on managements best estimate of the expenditure required to settle the present obligation at the balance sheet date, after due consideration of the risks and uncertainties that surround the underlying event. Provision for reorganisation costs are made where a detailed plan has been approved and an expectation has been raised in those affected by the plan that the Company will carry out the reorganisation.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost with the exception of previously revalued tangible fixed assets, which are now held at their book value at the date of implementation of FRS 15 (Tangible Fixed Assets), as permitted under the transitional rules of that standard, less amounts provided for depreciation and any provision for impairment. No depreciation is provided on freehold land where its value can be separately ascertained. In all other cases freehold properties are depreciated on a straight line method at 2% per annum. Leasehold properties are amortised by equal annual instalments over 50 years or the life of the lease, if shorter. Plant and machinery are depreciated on the straight line method at rates varying between 6% and 50% per annum.

RELATED PARTIES

The company has taken advantage of the dispensation under FRS 8, Related Party Transactions, not to disclose transactions or balances with other Group companies.

SHARE BASED PAYMENT

The Company operates a number of equity settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of shares or share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or share options granted, excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). Fair value is determined by reference to option pricing models, principally the black scholes model.

EVENTS AFTER THE BALANCE SHEET DATE

The ASB issued "FRS 21 "Events after the Balance Sheet Date" in May 2004. This standard replaced SSAP 17 "Accounting for Post Balance Sheet Events" and the main effect of this change is to prohibit the recording of a provision for a proposed dividend where the dividend is declared after the balance sheet date. FRS 21 is applicable for accounting periods beginning on or after 1 January 2005. Therefore final dividends are now only recognised when shareholders have approved such amount and interim dividends are only recognised when paid.

Notes to the Parent Company Financial Statements

for the year ended 30 September 2006

1 PARENT COMPANY

As permitted by S230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's retained loss for the financial year was £6,901,000 (2005: £8,961,000 profit).

2 DIVIDENDS

	2006 £'000	2005 £'000
Dividends on equity shares:		
Final paid: 4.8p per share (2005: 4.8p per share)	1,315	1,268
Interim paid: 3.7p per share (2005: 3.7p per share)	1,016	1,026
	2,331	2,294

In addition, the directors are proposing a final dividend in respect of the financial year ending 30 September 2006 of 4.8p per share which will absorb an estimated £1,325,000 of shareholders' funds. In accordance with IFRS the final dividend is not recorded as a liability nor reflected in the income statement.

Dividends payable in respect of 666,190 shares (2005: 666,190) held by an Employee Share Ownership Trust and 396 shares (2005: 55,712) shares held by the QUEST have been waived.

3 EMPLOYEES

The total remuneration and associated costs during the year were:

	2006 £'000	2005 £'000
Wages and salaries	1,746	2,962
Social security costs	201	482
Other pension costs	155	435
	2,102	3,879

Detailed disclosures of directors' remuneration and share options are given on pages 18 and 19 in the Group accounts. The average number of employees (including executive directors) during the year was: 19 (2005: 59).

4 TANGIBLE FIXED ASSETS

	Freeholds £'000	Plant and machinery £'000	Total £'000
Cost or valuation:			
At 1 October 2005	27,023	2,591	29,614
Transfers to group companies	–	(1,203)	(1,203)
Additions at cost	–	82	82
Reclassifications	(2,613)	2,613	–
Disposals	(14,272)	(874)	(15,146)
At 30 September 2006	10,138	3,209	13,347
At cost	10,138	3,209	13,347
At valuation	–	–	–
	10,138	3,209	13,347
Depreciation:			
At 1 October 2005	2,923	1,718	4,641
Transfers to group companies	–	(958)	(958)
Charge for the year	502	173	675
Reclassifications	(334)	334	–
On disposals	(1,805)	(489)	(2,294)
Impairment loss	6,006	–	6,006
At 30 September 2006	7,292	778	8,070
Net book value at 30 September 2006	2,846	2,431	5,277
Net book value at 30 September 2005	24,100	873	24,973

5 FIXED ASSET INVESTMENTS

Investment in subsidiaries
£'000

Net book value

At 30 September 2005 and 30 September 2006

72,885

The investments consist of a 100% interest in the following subsidiaries:

Country in which incorporated

Avon Polymer Products Limited	UK
Avon Rubber Overseas Limited	UK
Avon Rubber Pension Trust Limited	UK

6 OTHER FINANCIAL COMMITMENTS

	2006 £'000	2005 £'000
Capital expenditure committed	6	6

Capital expenditure committed represents the amount contracted at the end of the financial year for which no provision has been made in the financial statements.

The annual commitments of the Company for non-cancellable operating leases are:

	Land and buildings £'000	2006 Other assets £'000	Land and buildings £'000	2005 Other assets £'000
For leases expiring				
Within 1 year	–	5	–	–
In 2-5 years	51	–	60	5
Over 5 years	905	–	174	–
	956	5	234	5

The majority of leases of land and buildings are subject to rent reviews.

7 DEBTORS

	2006 £'000	2005 £'000
Amounts falling due within one year:		
Trade debtors	23	15
Group undertakings	39,943	57,804
Other debtors	1,331	589
Prepayments	315	93
	41,612	58,501
Amounts falling due after more than one year:		
Other debtors	956	–
	42,568	58,501

8 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Bank loans	8,000	29,331
Trade creditors	1,090	531
Group undertakings	5,403	6,860
Corporation tax	2,778	2,930
Other taxation and social security	104	220
Other creditors	2,133	75
Accruals	359	606
	19,867	40,553

9 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 £'000	2005 £'000
Bank loans	–	19,907

10 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £'000	Restructuring provision £'000	Total £'000
Balance at 30 September 2005	220	673	893
(Credited)/charged to profit and loss account	(220)	100	(120)
Payments in year	–	(320)	(320)
Balance at 30 September 2006	–	453	453

The restructuring provision is expected to be fully utilised during the next year.

11 SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised: 37,900,000 ordinary shares of £1 each	37,900	37,900
Called up allotted and fully paid: 28,275,000 ordinary shares of £1 each	28,275	28,121

During the year 154,066 ordinary shares were issued for the consideration of £275,590.

12 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £'000	Merger reserve £'000	Capital redemption reserve £'000	Profit and loss account (restated) see below £'000	Total £'000
At 30 September 2005 as previously stated	34,070	16,439	500	31,884	82,893
Prior year adjustment - FRS 20	–	–	–	–	–
Prior year adjustment - FRS 21	–	–	–	1,315	1,315
At 30 September 2005 restated	34,070	16,439	500	33,199	84,208
Current year loss	–	–	–	(6,901)	(6,901)
Transfer on disposal of subsidiaries	–	(16,439)	–	16,439	–
Movement in respect of employee share schemes	–	–	–	323	323
Proceeds from shares issued pursuant to Savings Related Share Option Schemes	121	–	–	–	121
At 30 September 2006	34,191	–	500	43,060	77,751

The prior year adjustments relate to the adoption of FRS 20 "Share based Payments" and FRS 21 "Events after the Balance Sheet date"

Under FRS 21 dividends should not be recognised as a creditor until the dividend is fully authorised. A prior year adjustment has been made to the 2005 figures to reflect this change in accounting policy.

Five Year Record

	IFRS 2006 £'000	IFRS 2005 £'000	UKGAAP 2004 (restated) £'000	UKGAAP 2003 £'000	UKGAAP 2002 £'000
Revenue	65,042	46,860	239,212	248,507	250,509
Operating (loss)/profit before exceptional items	(1,997)	(1,909)	10,116	10,360	10,442
Exceptional operating charges	(464)	(1,289)	–	–	(8,474)
Operating loss from continuing operations and after finance income/charges	(2,461)	(3,198)	10,116	10,360	1,968
Net interest	(1,219)	(1,467)	(1,431)	(2,925)	(3,423)
(Loss)/profit before taxation	(3,680)	(4,665)	8,685	7,435	(1,455)
Taxation	(2,045)	(1,116)	(1,658)	(1,976)	(310)
(Loss)/profit for the year from continuing operations	(5,725)	(5,781)	7,027	5,459	(1,765)
(Loss)/profit for the year from discontinued operations	(13,402)	735	–	–	–
(Loss)/profit for the year	(19,127)	(5,046)	7,027	5,459	(1,765)
(Loss)/profit attributable to minority interest	(209)	115	389	108	(194)
(Loss)/profit attributable to equity shareholders	(18,918)	(5,161)	6,638	5,351	(1,571)
Ordinary dividends	(2,331)	(2,294)	(2,245)	(2,131)	(2,031)
Retained (loss)/profit	(21,249)	(7,455)	4,393	3,220	(3,602)
Fixed assets and investments	37,918	101,736	99,993	106,594	107,327
Working capital	5,283	26,373	18,043	15,245	17,702
Provisions	(3,426)	(5,615)	(4,294)	(1,957)	(6,458)
Pension liability	(14,598)	(23,076)	(19,654)	(19,930)	–
Net borrowings	(1,107)	(51,719)	(29,687)	(38,022)	(41,021)
Net assets employed	24,070	47,699	64,401	61,930	77,550
Financed by:					
Ordinary share capital	28,275	28,121	27,824	27,824	27,824
Reserves attributable to Avon shareholders	(4,761)	18,813	35,927	32,586	48,259
Minority shareholders' interests	556	765	650	1,520	1,467
Total equity	24,070	47,699	64,401	61,930	77,550
Basic (loss)/earnings per share	(68.9)p	(19.1)p	25.1p	20.0p	(5.7)p
Dividends per share	8.5p	8.5p	8.5p	8.0p	7.5p

Notice of Annual General Meeting

for the year ended 30 September 2006

Notice is hereby given that the annual general meeting of shareholders will be held at Melksham House, Market Place, Melksham, Wiltshire on 25 January 2007 at 10.30 a.m. for the following purposes:-

1. To receive a presentation by the Chief Executive on aspects of the Company's business.
2. To receive and consider the report of the Directors and the financial statements for the year ended 30 September 2006 (Resolution No.1).
3. To declare a dividend on the ordinary shares (Resolution No. 2).
4. To approve the remuneration report of the Directors (as set out on pages 14 to 19 of the annual report) for the year ended 30 September 2006 (Resolution No. 3).
5. To re-elect Mr. B. Duckworth who retires by rotation and, being eligible, offers himself for re-election (Resolution No. 4).
6. To approve the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors (Resolution No. 5).
7. To transact any other routine business.
8. As special business to consider and if thought fit pass the following resolution which will be proposed as an Ordinary Resolution (Resolution No. 6):

"That the authority conferred on the directors by Article 9.2 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2008 or on 24 April 2008, whichever is the earlier, and, for such period the section 80 amount shall be £9,431,593"

9. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 7):

"That the power conferred on the directors by Article 9.3 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2008 or on 24 April 2008, whichever is the earlier, and for such period the section 89 amount shall be £1,414,739"

10. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 8):

"That the Company be and is hereby unconditionally and generally authorised for the purpose of section 166 of the Company's Act 1985 to make market purchases (as defined in section 163 of the Act) of ordinary shares of £1 each in the capital of the Company provided that:

- (a) the maximum number of shares which may be purchased is 4,241,388;
- (b) the minimum price which may be paid for each share is 1p;
- (c) the maximum price which may be paid for a share is an amount equal to 105% (one hundred and five percent) of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange London official list for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased; and
- (d) this authority shall expire at the conclusion of the annual general meeting of the Company held in 2008 or, if earlier, on 24 July 2008 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time".

A member entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him.

A proxy need not be a member of the Company.

By order of the Board
P.J. Fairbairn, Secretary
Melksham, Wiltshire
19 December 2006

A form of proxy is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.

To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power of authority) must be deposited at the Company's registrar, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting), for the taking of the poll at which it is to be used.

Documents for inspection

The following documents will be available for inspection from the date of this notice of annual general meeting until the close of the annual general meeting, at the registered office of the Company and at the place of the annual general meeting from at least 15 minutes prior to the meeting until the close of the meeting:-

- (i) the Register of Directors' interest showing any transactions of Directors and their family interests in the share capital of the Company; and
- (ii) copies of all Contracts of Service under which the Directors of the Company are employed by the Company or any of its subsidiaries.

Explanation of Resolution Nos. 6 and 7.

Article 9 of the Articles of Association of the Company both authorises your board to allot shares and disappplies shareholders' pre-emption rights, on an annual renewable basis. Shareholders may recall that this authority has previously been given for the maximum amounts permitted by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds ("the Investment Committees").

The authorities referred to above were renewed at the annual general meeting in 2006 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting. The authorisation for the allotment of shares and for the disapplication of pre-emption rights can be renewed by way of a relatively simple ordinary resolution and special resolution respectively. It is therefore proposed as Resolution No. 6 to renew the authority of the Directors to allot shares up to an aggregate nominal amount of £9,431,593 ("the section 80 amount"), being an amount equal to one third of the existing issued ordinary share capital, so that the Directors are empowered pursuant to and within that authority to issue shares (including in connection with a rights issue). It is additionally proposed as Resolution No. 7 to provide that the authority to issue shares for cash to persons other than existing shareholders (and not by way of a rights issue) will be limited to issues representing no more than £1,414,739 ("the section 89 amount") being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

The proposed new section 80 amount and the proposed new section 89 amount have been adjusted to reflect the increase in the issued share capital which has taken place during the year as a result of employees and directors exercising their rights under the Avon Rubber p.l.c. Sharesave Option Scheme 2002. In connection with the section 80 amount the Investment Committees require that the amount should be the lesser of the authorised but unissued share capital and an amount equal to one third of the existing issued ordinary share capital; this year one third of the existing issued ordinary share capital is the lesser amount and the section 80 amount has been calculated accordingly.

The authorities sought in Resolution Nos. 6 and 7 comply with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held in 2008 or on 24 April 2008 if earlier.

No issue of shares (apart from issues in respect of the exercise of options granted or to be granted to employees or Directors under option schemes approved by shareholders, including the Avon Rubber p.l.c. Sharesave Option Scheme 1992, the Avon Rubber p.l.c. Executive Share Option Scheme 1986, The Avon Rubber Sharesave Option Scheme 2002 and the Avon Rubber p.l.c. Performance Share Plan 2002), is currently contemplated and none will be made which will effectively alter the control of the Company without the prior approval of the Company in general meeting.

Explanation of Resolution No. 8.

It is proposed, by way of Resolution No. 8, to renew the Company's power to buy back its own shares. Although the Company's Articles of Association give the Company the relevant power, the Company is only permitted to buy back its shares pursuant to that power if it is additionally authorised to do so by a relevant resolution of the Company.

Resolution No. 8 would grant the Company authority to make purchases on the London Stock Exchange of up to 4,241,388 ordinary shares of £1 each of the Company, subject to the limitations on the minimum and maximum prices set out in the Resolution, for a period up to the conclusion of the annual general meeting of the Company held in 2008 or, if earlier, 24 July 2008. The maximum number of ordinary shares for which authority to purchase is being sought represents nearly 15% (fifteen percent) of the Company's issued ordinary share capital.

As of 8 December 2006 there were options to subscribe outstanding over 846,111 ordinary shares, representing 2.9% of the Company's ordinary issued share capital. If the authority given by Resolution No. 8 were to be fully exercised, these options would represent 3.5% of the Company's ordinary issued share capital. As of 8 December 2006 there were no warrants outstanding over ordinary shares.

The Directors intend to exercise the power given by Resolution No. 8 only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the underlying value per share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

Bonus and incentive scheme targets for Executive Directors would not be affected by any enhancement of earnings per share following a share re-purchase.

In the opinion of the Directors, Resolution No. 8 is in the best interests of the shareholders as a whole and the Directors intend to seek renewal of these powers at subsequent annual general meetings.

Shareholders' Information

SHAREHOLDERS

On 8 December 2006 the Company had 2,290 shareholders

Of the shareholders 1,272 (55.55%) had holdings of 1,000 shares or less

FINANCIAL CALENDAR

Interim figures announced in May and final results in December

Interim ordinary dividend declared in May and paid in June.

Final ordinary dividend announced, together with the results for the year, in December and paid in February,

Annual General Meeting held in January.

In respect of the year ended 30 September 2006 the Annual General Meeting will be held on 25 January 2007 and the final dividend will, if approved, be paid on 2 February 2007 to shareholders on the register on 12 January 2007.

CORPORATE INFORMATION

Registered office
Hampton Park West, Semington Road
Melksham, Wiltshire, SN12 6NB, England

REGISTERED

in England and Wales No 32965

COMPANY SECRETARY

P J Fairbairn

AUDITORS

PricewaterhouseCoopers

REGISTRARS & TRANSFER OFFICE

Capita Registrars Limited
Northern House
Woodsome Park, Fenay Bridge
Huddersfield HD8 0LA

BROKERS

JP Morgan Cazenove Limited

SOLICITORS

Linklaters
TLT

PRINCIPAL BANKERS

Comerica Inc.
Barclays Bank PLC

CORPORATE FINANCIAL ADVISORS

ING Bank N.V.

CORPORATE WEBSITE

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