Grant Thornton

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED (FORMERLY LIFTSPACE LIMITED)

FINANCIAL STATEMENTS

FOR THE 16 MONTHS ENDED

31 DECEMBER 2001

Company no 4061715

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED
(FORMERLY LIFTSPACE LIMITED)

FINANCIAL STATEMENTS

For the 16 months ended 31 DECEMBER 2001

Company Registration Number:	4061715
Registered Office:	Maxfli Court Riverside Way Camberley Surrey GU15 3YL
Directors:	Robert Brooke (Chairman) Philip J Parnell Alan C Lovell
Secretary:	Alistair J Ritchie
Bankers:	The Royal Bank of Scotland plc Regents House 42 Islington High Street London N1 8XL
Solicitors:	Ashurst Morris Crisp & Co Broadwalk House Appold Street London EC2A 2HA
Auditors:	Grant Thornton Registered Auditors Chartered Accountants Grant Thornton House Melton Street Euston Square London NW1 2EP

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED
(FORMERLY LIFTSPACE LIMITED)

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For the 16 months ended 31 DECEMBER 2001

INDEX **PAGE**

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED
(FORMERLY LIFTSPACE LIMITED)

REPORT OF THE DIRECTORS

For the 16 months ended 31 DECEMBER 2001

The directors present their report together with the audited financial statements for the 16 month period ended 31 December 2001.

Principal activities

Dunlop Slazenger Group Holdings Limited (formerly Liftspace Limited) was incorporated on 30 August 2000.

On 8 February 2001, Dunlop Slazenger Group Holdings Limited acquired the ordinary, deferred and 'A' ordinary shares of Dunlop Slazenger Group Limited.

The principal activity of the Dunlop Slazenger group comprises the manufacture and sale of sports apparel. The primary activity of the company is that of a holding company.

The subsidiary undertakings principally affecting the results or net assets of the group in the year are listed in note 12 to the financial statements.

Results and dividends

The loss for the year after taxation and minority interests was £103,095,000 after a charge of £59,216,000 arising from the impairment of goodwill.

The directors do not recommend the payment of a dividend.

Business review

The group is a manufacturer and distributor of a wide range of sporting goods with a particular emphasis on golf and tennis balls and more generally on racket sport and golf products. The main brands of the business are Dunlop, Maxfli, Slazenger and Carlton. The group operates worldwide, with significant operations in North America, Western Europe and South East Asia.

The directors have undertaken a fundamental reorganisation of the group's operations, with the announcement of the closure of its factory in the UK. Details of costs relating to this reorganisation can be found in note 3. The group has continued with this strategy of reorganisation and details of further restructuring can be found below. This project constitutes the major part of a fundamental restructuring programme to reduce the group's manufacturing operations to two major sites by the end of 2002, with resulting significant impact on the nature, geographical location and profitability of the group's operations.

Significant events

On 8 February 2001, Dunlop Slazenger Group Holdings Limited signed a restructuring agreement, the main terms of which were as follows:

- Dunlop Slazenger Group Holdings Limited ("DSGHL") became the holding company of the Dunlop Slazenger group by acquiring the ordinary, deferred and 'A' ordinary shares in Dunlop Slazenger Group Limited ("DSGL").
- The A, B, C, D and F loan notes and the payment obligation under the trademark agreement, issued by DSGL, were novated to DSGHL, the consideration for the novation being a loan due from DSGL.

Significant events (continued)

- Hawker Siddeley Management Limited (a member of the Invensys plc group) and the Dunlop Slazenger ESOP trust ("ESOP"), to whom the loan note and trademark fee liability were due, agreed to accept shares in DSGHL in full satisfaction of the debt owed to them. 10,000 'A' ordinary shares were issued to Hawker Siddeley Management Limited in discharge of £125.1m of debt and 10,000 ordinary shares were issued to ESOP in discharge of £82.6m of debt.

- The ESOP subscribed for 2,990,000 ordinary shares in DSGHL and the group's banks acquired 10,000 'A' ordinary shares, with a bonus issue of 2,990,000 'A' ordinary shares also being allotted to the banks from the share premium account.

- Hawker Siddeley Management Limited was issued with a warrant entitling them to be issued with fully paid 'A' ordinary shares in the company, sufficient to give them a 40% holding in the company.

- The banks agreed to the group paying a lower rate of interest on a proportion of its borrowings and to make available cash resources to fund seasonal working capital increases.

- The E loan notes, issued to Dunlop Slazenger group management in 1996, were amended, such that interest would no longer accrue on the notes and the repayment date was extended to 31 December 2040.

On 19 December 2001, the group signed an agreement with Taylor Made Golf Company Inc ("TMGC"), the main terms of which were as follows:

- The grant of a 15 month option to TMGC to purchase the Maxfli brand worldwide and to acquire an exclusive licence to the Slazenger golf brand.

- A distribution and licensing agreement for TMGC to distribute and license Maxfli and Slazenger golf products for a 5 year term. In respect of Slazenger golf product in Europe, TMGC has granted a licence back to the group for a 5 year period.

- A supply agreement for the group to supply TMGC with golf balls for a 5 year period.

- The group purchased TMGC's golf ball plant at Pontotoc, Mississippi, USA.

On 19 December 2001, the group signed an amendment to its credit agreement with its bankers, the main terms of which were as follows:

- Outstanding interest of £4.4m was capitalised.

- £75.9 million of the group's outstanding debt was converted into non interest bearing loans.

- Certain capital repayments due to the bank were deferred.

Future prospects

The directors believe that this restructuring and revised banking arrangements have established a more appropriate capital structure for the group. They also believe this, together with the major restructuring projects described above and improvements made to the organisation, systems and business processes of the group in 2001, will provide the group with a much reduced cost base which should benefit trading in future years. Results from the start of 2002 have been encouraging.

The directors believe that the group will be able to trade within its current banking facilities, although the group's projections indicate that the projected headroom against available facilities is relatively tight for the foreseeable future. They also believe that they will be able either to meet or to renegotiate a scheduled loan repayment in 2002. In conclusion the directors believe it is appropriate to prepare the accounts on a going concern basis.

Directors

The directors who served during the period were as follows:

Sir Michael Perry (Chairman) (appointed 22 January 2001; resigned 31 December 2001)
Philip J Parnell (appointed 4 October 2000)
Alan C Lovell (appointed 4 October 2000)
Instant Companies Limited (appointed 30 August 2000; resigned 4 October 2000)

On 1 January 2002, Robert Brooke was appointed a director and Chairman.

On 4 October 2000, Alistair Ritchie was appointed as Company Secretary.

The directors who held office at 31 December 2001 had the following beneficial interests in the management loan stock of Dunlop Slazenger Group Limited:-

Name of director	**31 December 2001** **£**
Sir Michael Perry	38,067
Alan C Lovell	47,584

None of the directors had any beneficial interest in the share capital of the company at 31 December 2001. Alan C Lovell held the subscriber share in the company until the restructuring already referred to.

P J Parnell, A C Lovell and the group's bankers entered into an executive incentivisation scheme, whereby bonus remuneration could become payable to them in future periods, subject to the repayment of all or a substantial part of the group's debt.

Directors' responsibilities for the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Research and development

The group continues to invest in research and development, notably in the area of golf ball development but also in other products, which is expected to make a significant contribution to the future growth of the business (see note 6 to the accounts).

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and operates a practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved primarily through formal and informal meetings and a group newsletter. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Charitable contributions

Donations to charitable organisations amounted to £2,000.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to make suppliers aware of those terms and, under normal circumstances, to abide fully by them.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

Alistair Ritchie
Secretary
10 May 2002

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

We have audited the financial statements of Dunlop Slazenger Group Holdings Limited for the period ended 31 December 2001 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 29 on pages 8 to 38. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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

We read other information contained in the directors' report and consider whether it is consistent with the audited financial statements. 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 opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion we have considered the adequacy of the disclosure made in the Principal Accounting Policies section of the financial statements concerning the uncertainty as to the Group's ability to continue to trade within its current borrowing facilities and to comply with its banking covenants. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED (CONTINUED)

Opinion

In our opinion the financial statements give a true and fair view of the state affairs of the company and the group as at 31 December 2001 and of the result of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

LONDON
10 MAY 2002

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

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

The company has adopted Financial Reporting Standard No 18 - Accounting Standards in these financial statements. The company's accounting policies have been reviewed in the light of FRS 18. The principal accounting policies of the company are set out below.

GOING CONCERN

The financial statements have been prepared on a going concern basis, the validity of which depends on the group being able to trade within its banking facilities and covenants.

Covenants are being reset with effect from 1 May 2002 on the basis of management projections. The directors believe that the Group will be able to trade within the new banking facilities and covenants although the Group's projections indicate that the projected headroom against covenants is relatively tight for the foreseeable future. The results of rationalisation carried out during the course of 2001 have given rise to significant improvement to the group's net operating result and working capital position at the current date when compared with the same date in 2001. The directors are continuing the process of rationalising the Group in order to seek further efficiencies and improvements in its financial headroom and are now embarking on the third phase of this process. This is being conducted in full discussion with the bankers who have indicated their intention to continue to support the Group.

In addition, the Group's banking facilities require a significant repayment to be made within a timescale which the Group may not be able to achieve. The directors believe that transactions will be carried out which will yield the funds to repay this amount and, even if they are not, that the repayment terms will be renegotiated with the Group's bankers.

Whilst the outcome of these matters is at present uncertain, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis. The financial statements do not include any adjustments that would arise from an inability to trade within the current borrowing facilities and covenants or a failure to meet repayments of bank loans as they fall due.

BASIS OF CONSOLIDATION

The group financial statements consolidate the financial statements of Dunlop Slazenger Group Holdings Limited and its subsidiary undertakings drawn up to 31 December 2001. The results of subsidiaries acquired are consolidated for the period from the date on which control passed. Acquisitions are accounted for under the acquisition method.

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is a maximum of twenty years. Provision is made for any impairment.

RESEARCH AND DEVELOPMENT

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the group is expected to benefit. Expenditure is never carried forward for more than one year except for expenditure on tangible fixed assets to be used in research and development.

TURNOVER

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write down the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	50 years (2% per annum)
Leasehold land and buildings	Period of lease
Plant and machinery	2 – 20 years (5% - 50% per annum)

Freehold land is not depreciated.

INVESTMENTS

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

STOCKS INCLUDING WORK IN PROGRESS

Stocks are stated at the lower of cost and net realisable value. Cost includes material, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

TAXATION

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is provided for using the liability method on timing differences only to the extent that they are expected to reverse in the forseeable future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

FOREIGN CURRENCY

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction or, if hedged, at the appropriate forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are dealt with through the foreign currency translation reserve.

DEBT

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

FINANCE COSTS

Finance costs (principally interest and arrangement fees) of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

LEASES

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

CONTRIBUTIONS TO PENSION SCHEMES

Defined Benefit Scheme

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are either externally funded, with the assets of the scheme being held separately from those of the group in separate trustee administered funds, or unfunded. Differences between amounts charged to the profit and loss account and amounts funded or paid directly to members of unfunded schemes are shown as either provisions or prepayments in the balance sheet.

The group has taken advantage of the transitional provisions of Financial Reporting Standard No 17 - Retirement Benefits. Accordingly the pensions charge has been calculated under the existing accounting policy which is in accordance with Statement of Standard Accounting Practice 24 - Pensions Costs and disclosure has been made of the assets and liabilities of the scheme value under FRS 17.

LIQUID RESOURCES

Current assets that can be disposed of by the group without curtailing or disrupting its business, and are readily convertible into a known amount of cash at or close to their carrying value, are classified as liquid resources. They consist of short term cash deposits.

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED
(FORMERLY LIFTSPACE LIMITED)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the 16 months ended 31 DECEMBER 2001

	Note	2001 £'000	2001 £'000
Turnover	1		
Continuing operations			153,168
Discontinued operations			1,173
			154,341
Cost of sales	2		(108,907)
Gross profit	2		45,434
Provision for impairment of goodwill		(59,216)	
Other operating charges		(76,442)	
	2		(135,658)
Operating loss			
Continuing operations			(90,175)
Discontinued operations			(49)
	1		(90,224)
Exceptional items	3		(4,311)
Interest payable and similar charges	4		(8,346)
Interest receivable and similar income	5		1,004
Loss on ordinary activities before taxation	6		(101,877)
Tax on loss on ordinary activities	8		(920)
Loss on ordinary activities after taxation			(102,797)
Minority interest	23		(298)
Loss for the financial year transferred from reserves	21		(103,095)

All of the above results relate to the operations of Dunlop Slazenger Group Limited and its subsidiaries. These have been consolidated from the acquisition of Dunlop Slazenger Group Limited on 8 February 2001.

The accompanying accounting policies and notes form an integral part of these financial statements.

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED
(FORMERLY LIFTSPACE LIMITED)

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2001

	Note	Group 2001 £'000	Company 2001 £'000
Fixed assets			
Goodwill	10	-	-
Tangible assets	11	30,080	-
Investments	12	-	1
		30,080	1
Current assets			
Stocks	13	26,190	-
Debtors	14	25,229	-
Investments	15	17	308
Cash at bank and in hand		12,207	-
		63,643	308
Creditors: amounts falling due within one year	16	(139,242)	-
Net current liabilities		(75,599)	308
Total assets less current liabilities		(45,519)	309
Creditors: amounts falling due after more than one year	17	(46,820)	-
Provisions for liabilities and charges	19	(10,580)	-
Net liabilities		(102,919)	309
Capital and reserves			
Called up share capital	20	1	1
Share premium account	21	207,740	207,740
Foreign currency translation reserve	21	(737)	-
Profit and loss account	21	(310,806)	(207,432)
Total equity shareholders' deficit	22	(103,802)	309
Minority equity interests	23	883	-
		(102,919)	309

The financial statements were approved by the Board of Directors on 10 May 2002

P J Parnell - Director

The accompanying accounting policies and notes form an integral part of these financial statements.

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED
(FORMERLY LIFTSPACE LIMITED)

CONSOLIDATED CASH FLOW STATEMENT

For the 16 months ended 31 DECEMBER 2001

	Note	2001 £'000
Net cash outflow from operating activities	24	**(1,310)**
Returns on investments and servicing of finance	25	**(3,466)**
Taxation	25	**(161)**
Capital expenditure and financial investment	25	**(3,148)**
Costs of a fundamental reorganisation	25	**(877)**
Acquisitions and disposals	25	**88**
Cash outflow before management of liquid resources and financing		**(8,874)**
Management of liquid resources	25	**1,629**
Financing	25	**15,576**
Increase in cash in the year	26	**8,331**

The accompanying accounting policies and notes form an integral part of these financial statements.

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED
(FORMERLY LIFTSPACE LIMITED)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 16 months ended 31 DECEMBER 2001

	2001 £'000
Loss for the financial year	(103,095)
Exchange differences on foreign currency net investments	(737)
Total recognised gains and losses relating to the year	**(103,832)**

The accompanying accounting policies and notes form an integral part of these financial statements.

1 SEGMENT INFORMATION

Geographical segments:

	United Kingdom 2001 £'000	Rest of Europe 2001 £'000	United States 2001 £'000	Rest of World 2001 £'000	Total 2001 £'000
Turnover by destination	23,488	40,588	67,026	23,239	154,341
Turnover by origin	30,529	34,523	67,346	21,943	154,341
Operating loss	(61,564)	(281)	(27,901)	(478)	(90,224)
Segment net assets	(154,092)	(6,539)	60,049	(353)	(100,935)
Unallocated net liabilities	153,064	(5,805)	(144,646)	(4,597)	(1,984)
Total net liabilities	(1,028)	(12,344)	(84,597)	(4,950)	(102,919)

Operating profit is stated after allocating head office and consolidation adjustments to the United Kingdom segment. Unallocated net liabilities consist of interest-bearing cash and deposits and interest-bearing borrowings.

Discontinued operations

The analysis presented above includes the following amounts in respect of discontinued operations:

	United Kingdom 2001 £'000	£'000	Rest of Europe 2001 £'000	£'000	Rest of World 2001 £'000	£'000	Total 2001 £'000	£'000
Turnover by destination: Sales to third parties	12	-	-	-	1,161	-	1,173	-
Turnover by origin: Sales to third parties	-	-	-	-	1,173	-	1,173	-
Operating (loss)/profit	-	-	-	-	(49)	-	(49)	-
Segment net liabilities	-	-	-	-	-	-	-	-
Unallocated net liabilities	-	-	-	-	-	-	-	-
Total net liabilities	-	-	-	-	-	-	-	-

In July 2001, the Group closed its South African business.

In accordance with Financial Reporting Standard No. 3 ("Reporting Financial Performance") the results of this operation for the current period are shown under discontinued operations.

2 COST OF SALES, GROSS PROFIT AND OTHER OPERATING CHARGES (NET)

	2001 Continuing operations £'000	2001 Discontinued operations £'000	Total £'000
Cost of sales	(108,068)	(839)	(108,907)
Gross profit	45,100	334	45,434
Distribution costs	(6,790)	(69)	(6,859)
Administrative expenses	(78,469)	(322)	(78,791)
Provision for impairment of goodwill	(59,216)	-	(59,216)
Other operating income	9,200	8	9,208
Other operating charges (net)	(135,275)	(383)	(135,658)

3 EXCEPTIONAL ITEMS

Exceptional items comprise losses on the sale of fixed assets and discontinued operations and costs of fundamental reorganisations as follows:

	2001 £'000
Loss on disposal of tangible fixed assets	(905)
Gain on disposal of South African business	392
Costs of fundamental reorganisations	(3,798)
	(4,311)

In July 2001, the Group closed its South African business.

During the year the group undertook a fundamental reorganisation of its manufacturing capability which has resulted in the closure of its factory in the United Kingdom. Costs, primarily redundancy, in respect of this reorganisation have been treated as exceptional.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £'000
Bank loans and overdrafts	7,660
Other interest payable	686
	8,346

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2001 £'000
Interest receivable	44
Exchange gain on foreign currency deposits less borrowings (net)	603
Other interest	357
	1,004

6 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	2001 £'000
Depreciation and amounts written off tangible fixed assets	
- owned	5,851
Provisions made in respect of the impairment of tangible fixed assets	2,180
Provision for impairment of goodwill	59,216
Operating lease rentals	
- plant and machinery	1,067
- other	1,814
Auditors' remuneration for audit services (current auditors)	291
Research and development	
- current year expenditure	1,630

Remuneration of the auditors for non-audit services amounted to £154,000.

7 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2001 £'000
Wages and salaries	35,876
Social security costs	3,327
Pension costs	1,665
	40,868

DIRECTORS AND EMPLOYEES (CONTINUED)

The average number of employees during the year was:

	2001 Number
Manufacturing	1,146
Administration	538
Sales and marketing	310
Research and development	26
	2,020

Remuneration in respect of directors was as follows:

	2001 £'000
Emoluments	430
Company contributions to a defined benefit scheme	13
Company contributions to other retirement schemes	68
	511

During the period 2 directors participated in defined benefit pension schemes and 2 directors participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2001 £'000
Emoluments	217
Company contributions to a defined benefit scheme	5
Pension contributions to money purchase pension schemes	45
	267

The highest paid director's accrued pension at the year end was £12,720 and the highest paid director's accrued lump sum was £nil.

Directors' interests in transactions

Philip J Parnell, Alan C Lovell and the group's bankers entered into an executive incentivisation scheme, whereby bonus remuneration could become payable in future periods, subject to the repayment of all or a substantial part of the group's debt.

8 TAX ON LOSS ON ORDINARY ACTIVITIES

The taxation charge is based on the loss for the year and comprises:

	2001 £'000
Overseas taxation	845
Withholding tax suffered on foreign source income	136
Deferred taxation	(4)
	977
Adjustments in respect of prior years	
- current taxation	(73)
- deferred taxation	16
	920

9 LOSS ATTRIBUTABLE TO DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

The loss for the financial year dealt with in the accounts of Dunlop Slazenger Group Holdings Limited was £207,443,000. As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of Dunlop Slazenger Group Holdings Limited.

10 INTANGIBLE FIXED ASSETS

GROUP

	Goodwill £'000
Cost	
Additions	59,216
At 31 December 2001	59,216
Amortisation	
Provision for impairment	59,216
At 31 December 2001	59,216
Net book amount at 31 December 2001	-

11 TANGIBLE FIXED ASSETS

GROUP

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
Acquisition of subsidiaries	7,646	54,460	62,106
Additions	-	3,610	3,610
Disposals	(8)	(1,525)	(1,533)
Disposal of business	(235)	(288)	(523)
Exchange adjustment	87	323	410
At 31 December 2001	**7,490**	**56,580**	**64,070**
Depreciation			
Acquisition of subsidiaries	1,440	25,030	26,470
Charge for year	249	5,602	5,851
Provision for impairment	293	1,887	2,180
Disposals	(3)	(595)	(598)
Disposal of business	(12)	(150)	(162)
Exchange adjustment	61	188	249
At 31 December 2001	**2,028**	**31,962**	**33,990**
Net book amount at 31 December 2001	**5,462**	**24,618**	**30,080**

The net book amount of land and buildings (including those held for resale) comprises freehold £5,126,000 and short leasehold £336,000.

Freehold land amounting to £759,000 has not been depreciated.

In 1999, one of the group undertakings entered into an agreement for the sale and leaseback of £3.3 million of the group's tangible fixed assets with the County of Oconee, South Carolina, USA in order to reduce property taxes in the United States. The agreement has a term of 20 years during which title to these assets is transferred to Oconee County. The group undertaking has the option to repurchase the assets, either at the end of the term of the agreement or earlier on demand by the group undertaking, for consideration of $1. The assets concerned are still recognised in the group accounts in accordance with Financial Reporting Standard No 5 ("Reporting the substance of transactions") since the group undertaking retains access to and risks inherent in the benefits of the assets.

12 FIXED ASSET INVESTMENTS

Company

	£'000
Cost	
Additions	1
At 31 December 2001	1
Amounts written off	
At 31 December 2001	-
Net book amount at 31 December 2001	1

The addition in the period consists of the acquisition of the 'A' ordinary, ordinary and deferred shares of Dunlop Slazenger Group Limited.

Principal group investments

The parent company and the group have investments in the following subsidiary undertakings which principally affected the results or net assets of the group. To avoid a statement of excessive length, details concerning investments which are not significant have been omitted.

Principal group investments

Subsidiary undertakings	Country of incorporation or registration	Proportion (%) of ordinary shares held by Company	Proportion (%) of ordinary shares held by Subsidiaries
Dunlop Slazenger Group Limited*	England and Wales	100	-
Dunlop Slazenger International Limited	England and Wales	-	100
Dunlop Slazenger Holdings Limited*	England and Wales	-	100
Dunlop Sport GmbH	Germany	-	100
Dunlop Maxfli Inc.	Canada	-	100
Dunlop Slazenger Holdings Inc.*	USA	-	100
Dunlop Slazenger Group Americas Inc	USA	-	100
Dunlop Slazenger Ireland Limited	Ireland	-	100
Dunlop Slazenger International SA	France	-	100
Dunlop Slazenger (Hong Kong) Limited	Hong Kong	-	100
Dunlop Slazenger (Far East) Sdn Bhd	Malaysia	-	100
Dunlop Slazenger (Malaysia) Sdn Bhd	Malaysia	-	100
Dunlop Slazenger (Philippines) Inc.	Philippines	-	64
Dunlop Slazenger International Inc.	Philippines	-	100
PT Dunlop Slazenger Indonesia	Indonesia	-	80

The principal activity of the subsidiary undertakings marked * is that of a holding company. The principal activity of all the other subsidiaries shown above is the manufacture and sale of sports equipment and apparel.

FIXED ASSET INVESTMENTS (CONTINUED)

In July 2001, the Group closed the South African branch of Dunlop Slazenger International Limited.

On 19 December 2001, the Group acquired Mississippi Manufacturing LLC which owns the Pontotoc, USA golf ball factory, previously owned by Taylor Made Golf Company Inc.

Substantial acquisition in the period

On 8 February 2001, the company acquired the 'A' ordinary, ordinary and deferred shares in Dunlop Slazenger Group Limited, being 100% of its nominal share capital for a consideration of £1,000, satisfied by an intercompany loan due to the the Dunlop Slazenger ESOP trust. Goodwill arising on the acquisition has been capitalised and provision made for impairment. This purchase has been accounted for by the acquisition method of accounting.

The consolidated loss after taxation and minority interests of Dunlop Slazenger Group Limited for the period from 1 January 2001, the beginning of that company's financial year, to the date of acquisition was £4,121,000.

This arose as follows:

	2001 £'000
Turnover	7,611
Operating loss	(2,761)
Exceptional items	-
Loss before taxation	(4,121)
Taxation	-
Minority interests	-

The consolidated loss after taxation and minority interests for the year ended 31 December 2000 was £33,293,000.

FIXED ASSET INVESTMENTS (CONTINUED)

The assets and liabilities of Dunlop Slazenger Group Limited and its subsidiaries acquired were as follows:

	Book value £'000	Other adjustments £'000	Fair value £'000
Fixed assets:			
Intangible	30	(30)	-
Tangible	35,636	-	35,636
Current assets:			
Stocks	38,181	-	38,181
Debtors	27,812	-	27,812
Investments	373	-	373
Bank and cash	4,022	-	4,022
	70,388	(30)	70,388
Creditors:			
Debenture loans	(220,722)	220,101	(621)
Bank loans	(123,304)	-	(123,304)
Trade creditors	(20,539)	-	(20,539)
Other creditors	(3,763)	-	(3,763)
Accruals	(8,872)	-	(8,872)
Provisions	(7,465)	-	(7,465)
Total liabilities	(384,665)	220,101	(164,564)
Minority shareholders' interests	(675)	-	(675)
Net assets	(279,286)	220,071	(59,215)
Purchased goodwill capitalised			59,216
			1
Satisfied by:			
Cash			1

The fair value adjustments relate to the exclusion of goodwill on the basis that this is not an identifiable asset and to an adjustment to the value of the loan notes to record them at the value these would be exchanged at in an arm's length transaction.

13 STOCKS

	Group 2001 £'000	Company 2001 £'000
Raw materials and consumables	3,102	-
Work-in-progress	3,531	-
Finished goods and goods for resale	19,557	-
	26,190	-

14 DEBTORS

	Group 2001 £'000	Company 2001 £'000
Amounts falling due within one year:		
Trade debtors	20,069	-
Taxation	767	-
Other debtors	2,082	-
Prepayments and accrued income	2,287	-
	25,205	-

	Group 2001 £'000	Company 2001 £'000
Amounts falling due after more than one year:		
Taxation	24	-
	25,229	-

15 INVESTMENTS

The company balance sheet includes the investments of the Dunlop Slazenger ESOP trust. The trust was set up for the benefit of employees to act as a warehousing function for the purchase and sale of shares and loan stock to employees. These activities are funded via a loan from Dunlop Slazenger Group Limited.

At the balance sheet date, the ESOP holds £308,006 of E loan notes issued by Dunlop Slazenger Group Limited which were acquired as holders left the company.

In addition, the ESOP holds 3,000,000 ordinary shares of 0.01p per share nominal value in Dunlop Slazenger Group Holdings Limited. The ESOP received financial assistance from Dunlop Slazenger Group Limited to purchase these shares, as permitted by section 153(4) of the Companies Act. These shares have yet to be assigned to employees. There have been no dividends declared to date on these shares.

Any costs relating to the ESOP are charged to the profit and loss account of the sponsoring company, Dunlop Slazenger Group Holdings Limited.

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2001 £'000	Company 2001 £'000
Bank loans and overdrafts	98,538	-
Trade creditors	20,946	-
Other taxation and social security	1,175	-
Other creditors	1,381	-
Accrued pension scheme contributions	94	-
Accruals and deferred income	17,108	-
	139,242	-

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2001 £'000	Company 2001 £'000
Loan notes	313	-
Bank loans and overdrafts	46,420	-
Other creditors	87	-
Accruals and deferred income	-	-
	46,820	-

18 BORROWINGS

	Group 2001 £'000	Company 2001 £'000
Within one year		
Bank loans and overdrafts payable by instalments	500	-
Bank loans and overdrafts payable on demand	98,038	-
After one and within two years		
Bank loans and overdrafts payable by instalments	845	-
After two and within five years		
Bank loans and overdrafts payable by instalments	45,575	-
After five years		
Loan notes	313	-
	145,271	-

Borrowings (continued)

Bank loans and overdrafts

The group has granted fixed and floating charges, granted share pledges and issued guarantees to secure bank loans and bank overdrafts of £143.6 million. The interest rates on the secured bank loans were at a margin of 2.125% above LIBOR per annum, with the exception of one loan at a fixed rate of 4.0%.

The group used a currency swap to hedge against movements in foreign currency earnings from an overseas business.

Restructuring

On 23 January 2001, Cinven sold its 100% holding of 'A' ordinary shares in Dunlop Slazenger Group Limited to the Dunlop Slazenger ESOP trust ("ESOP"), an employee trust established for employees of the group, and transferred to the ESOP ownership of the 'D' and 'F' loan notes issued to it by the group.

On 8 February 2001, the group signed a restructuring agreement with its bankers, loan note creditors and shareholders, the main terms of which were as follows:-

- Dunlop Slazenger Group Holdings Limited ("DSGHL") became the holding company of the group by acquiring the ordinary, deferred and 'A' ordinary shares in Dunlop Slazenger Group Limited.
- Invensys plc agreed to the payment obligation under the trademark agreement being written down to £9m (book value of £21m).
- The A, B, C, D and F loan notes and the remaining payment obligation under the trademark agreement were novated to DSGHL, the consideration for the novation being a loan due from DSGL.
- Hawker Siddeley Management Limited ("Hawker Siddeley"), a member of the Invensys plc group, and the ESOP agreed to accept shares in DSGHL in full satisfaction of the debt owed to them by the group. 10,000 'A' ordinary shares were issued to Hawker Siddeley in discharge of £125.1m of debt and 10,000 ordinary shares were issued to ESOP in discharge of £82.6m of debt.
- The ESOP subscribed for 2,990,000 ordinary shares in DSGHL and the group's banks acquired 10,000 'A' ordinary shares, with a bonus issue of 2,990,000 'A' ordinary shares also being allotted to the banks from the share premium account.
- Hawker Siddeley was issued with a warrant entitling them to be issued with fully paid 'A' ordinary shares in the company, sufficient to give them a 40% stake in the company.
- The banks agreed to the group paying a lower rate of interest on a proportion of its borrowings and to make available cash resources to fund seasonal working capital increases.
- The terms of the E loan notes were amended, such that interest would no longer accrue on the notes and the repayment date was extended to 31 December 2040.

Restructuring (continued)

On 19 December 2001, the group signed an agreement with Taylor Made Golf Company Inc ("TMGC"), the main terms of which were as follows:

- The grant of a 15 month option to TMGC to purchase the Maxfli brand worldwide and to acquire an exclusive licence to the Slazenger golf brand.
- A distribution and licensing agreement for TMGC to distribute and license Maxfli and Slazenger golf products for a 5 year term. In respect of Slazenger golf product in Europe, TMGC has granted a licence back to the group for a 5 year period.
- A supply agreement for the group to supply TMGC with golf balls for a 5 year period.
- The group purchased TMGC's golf ball plant at Pontotoc, Mississippi, USA.

On 19 December 2001, the group signed an amendment to its credit agreement with its bankers, the main terms of which were as follows:-

- Outstanding interest of £4.4m was capitalised.
- £75.9 million of the group's outstanding debt was converted into non interest bearing loans.
- Certain capital repayments due to the bank were deferred.

19 PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Deferred taxation £'000	Other £'000	Post retirement benefits £'000	Pensions £'000	Provisions for warranties £'000	Total £'000
Companies acquired	24	2,490	2,626	2,286	39	7,465
Provided	12	4,051	-	614	12	4,689
Released	-	(462)	(341)	(355)	-	(1,158)
Utilised	-	(316)	-	(40)	-	(356)
Exchange difference	(1)	(70)	58	(46)	(1)	(60)
At 31 December 2001	**35**	**5,693**	**2,343**	**2,459**	**50**	**10,580**

Details of pensions and other post-retirement benefits are set out in note 28.

At the balance sheet date, other provisions consist primarily of restructuring costs relating to the closure of various manufacturing sites.

Deferred taxation provided and unprovided are as follows:

PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Group

	Provided 2001 £'000	Unprovided 2001 £'000
Accelerated capital allowances	35	-

At 31 December 2001 the Group had significant tax losses, mainly arising in the UK and the Americas. The tax effect of the losses is not reflected in the above figures as at 31 December 2001 as they are not expected to reverse in the foreseeable future. The accumulated reserves of the overseas subsidiary undertakings would be subject to additional taxation if remitted. In the opinion of the directors these accumulated reserves are required to finance the continuing operation of these subsidiary undertakings and accordingly, no provision for additional taxation has been made.

Details of pensions and other post-retirement benefits are set out in note 28.

20 CALLED UP EQUITY SHARE CAPITAL

	2001 Number	2001 £
Authorised		
'A' ordinary shares of 0.01p each	7,000,000	700
Ordinary shares of 0.01p each	3,000,000	300
		1,000
Allotted, called-up and fully paid		
'A' ordinary shares of 0.01p each	3,010,000	301
Ordinary shares of 0.01p each	3,000,000	300
		601

On 30 January 2001, the issued share capital of one £1 ordinary share was subdivided and reclassified as 10,000 'A' ordinary shares of 0.01p nominal value each.

The authorised but unissued share capital of 999 £1 ordinary shares were subdivided into 10,000 ordinary shares of 0.01p nominal value each. 6,990,000 of these unissued 0.01p ordinary shares were reclassified as 'A' ordinary shares of 0.01p nominal value each.

On 8 February 2001, as part of the group's restructuring agreement with its bankers, loan note creditors and shareholders, the following transactions took place:-

- 10,000 'A' ordinary shares were issued to Hawker Siddeley Management Limited (a member of the Invensys plc group) in discharge of £125.1m of debt issued by the Dunlop Slazenger group.
- 10,000 ordinary shares were issued to the Dunlop Slazenger ESOP trust, an employee trust established for employees of the group, in discharge of £82.6m of debt.
- The difference between the value of the consideration given for the shares (the book value of the debt) and the nominal value of the shares has been credited to the share premium account.

CALLED UP EQUITY SHARE CAPITAL

- The ESOP additionally subscribed for 2,990,000 ordinary shares in Dunlop Slazenger Group Holdings Limited.
- The group's syndicate of banks acquired 10,000 'A' ordinary shares. They were then issued with 2,990,000 'A' ordinary shares, as a bonus issue of shares from the share premium account.

Warrant

Hawker Siddeley was also issued with a warrant on 8 February 2001. This warrant gives them the option to require Dunlop Slazenger Group Holdings Limited to issue them with fully paid 'A' ordinary shares in the company sufficient to give them a 40% holding in the company.

The warrant can be exercised:-

- If Dunlop Slazenger Group Holdings Limited or any other group company is floated
- If 51% or more of the shares in Dunlop Slazenger Group Holdings Limited are sold to a third party (or to a number of third parties acting in concert)
- If all or substantially all of the business of the group is being sold
- If Dunlop Slazenger Group Holdings Limited is liquidated
- On the anniversary of the date of the restructuring

The option will cease to be exercisable ten years after the date of the restructuring.

Rights to dividends

Subject to any restrictions imposed by law and any restrictions set out in the group's Credit Agreement, the company may pay to the holders of shares such dividends as the board shall recommend and the holders of a majority in nominal value of the shares entitled to attend and vote at general meetings of the company shall approve.

Priority and amounts receivable in the event of winding-up

In the event of winding up, the assets of the company, after the settlement of all other liabilities and the cost of winding up, shall be distributed between the 'A' ordinary shareholders and ordinary shareholders.

Voting rights

'A' ordinary shares and ordinary shares carry one vote each. The exception to this would be if a resolution was proposed to issue new shares or grant the directors the authority to allot new shares, whilst Hawker Siddeley was the holder of its current share holding and the unexercised warrant. In this instance, Hawker Siddeley is entitled to demand a poll and be able to cast sufficient votes in this poll as it would have been entitled to had it exercised the warrant in full.

21 RESERVES

Group

	Share premium account £'000	Foreign currency translation reserve £'000	Profit and loss account £'000	Total £'000
Share issues	207,740	-	-	207,740
Currency fluctuations				
- net assets	-	(786)	-	(786)
- long term borrowings	-	(86)	-	(86)
- retained profits	-	135	-	135
Retained loss for the year	-	-	(103,095)	(103,095)
Fair value adjustments to subsidiaries acquired	-	-	(207,711)	(207,711)
At 31 December 2001	**207,740**	**(737)**	**(310,806)**	**(103,803)**

Company

	Share premium account £'000	Profit and loss account £'000	Total £'000
Share issues	207,740	-	207,740
Retained loss for the year	-	(207,443)	(207,443)
Transfer of ESOP prior period reserves on transfer of control	-	11	11
At 31 December 2001	**207,740**	**(207,432)**	**308**

Of the above reserves, only the profit and loss account is regarded as distributable.

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	Group £'000	Company £'000
Loss for the financial period		
Other recognised gains and losses	(103,095)	(207,443)
	(737)	-
	(103,832)	(207,443)
Fair value adjustments to companies acquired	(207,711)	-
Transfer of ESOP prior period reserves on transfer of control	-	11
Share issue	207,741	207,741
Net increase in shareholders' deficit	(103,802)	309
Shareholders' deficit at 31 December 2001	**(103,802)**	**309**

23 MINORITY INTERESTS

	£'000
On acquisition of subsidiaries	675
Profit on ordinary activities after taxation	298
Dividends paid	(85)
Currency fluctuations	(5)
At 31 December 2001	**883**

Minority interests represent amounts attributable to equity interests.

24 RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 £'000
Operating loss	**(90,224)**
Depreciation charges	**5,851**
Provision for impairment of tangible fixed assets	**833**
Provision for impairment of goodwill	**59,216**
Decrease in stocks	**12,113**
Decrease in debtors	**2,041**
Increase in creditors	**6,743**
Increase in provisions	**1,869**
Foreign exchange differences relating to foreign currency net investments	**164**
Other	**84**
Net cash outflow from operating activities	**(1,310)**

Net cash outflow from operating activities comprises:

	2001 £'000
Continuing activities	**(1,757)**
Discontinued activities	**447**
	(1,310)

25 ANALYSIS OF CASH FLOWS

	2001 £'000
Returns on investments and servicing of finance	
Interest received	81
Interest paid	(3,462)
Dividends paid to minority interests	(85)
Net cash outflow	(3,466)
Taxation	
Overseas tax paid	(161)
Net cash outflow	(161)
Capital expenditure and financial investment	
Purchase of tangible fixed assets	(3,174)
Sale of tangible fixed assets	31
Purchase of unlisted investments	(5)
Net cash outflow	(3,148)
Costs of a fundamental reorganisation	
Exceptional loss on fundamental reorganisation	(3,798)
Increase in provisions	1,574
Provision for impairment of fixed assets	1,347
Net cash outflow	(877)
Acquisitions and disposals	
Sale of business	267
Less: costs of disposal	(179)
Net cash inflow	88
Management of liquid resources	
Cash returned from short term deposit	1,629
Net cash inflow	1,629
Financing	
Increase in short term borrowings	15,874
Repayments of secured bank loans	(147)
Repayments of unsecured bank loans	(312)
New unsecured bank loans	9
New secured bank loans	151
	15,575
Issue of share capital	1
Net cash inflow	15,576

Interest paid in the year is significantly lower than interest payable as set out in note 4 due to interest charges capitalised of £4,362,000.

ANALYSIS OF CASH FLOWS (CONTINUED)

ACQUISITION OF SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings acquired in the year were responsible for all group cashflows, with the exception of the issue of share capital by Dunlop Slazenger Group Holdings Limited.

DISPOSAL OF BUSINESS

The business sold in the year contributed £447,000 to the group's net operating cash flows, paid £27,000 in respect of net returns on investment and servicing of finance, paid £nil in respect of taxation and received £264,000 for net capital expenditure.

26 ANALYSIS AND RECONCILIATION OF NET DEBT

	Cash flow	Acquisition of subsidiary	Exchange movement	Other non-cash changes	At 31 December 2001
	£'000	£'000	£'000	£'000	£'000
Net cash:					
Cash at bank and in hand	8,145	4,022	40	-	**12,207**
Less: deposits treated as liquid resources	1,629	(1,705)	4	-	**(72)**
	9,774	2,317	44	-	**12,135**
Bank loans and overdraft	(16,867)	(81,360)	1,113	(1,424)	**(98,538)**
Less: financing	15,424	74,122	(1,041)	1,424	**89,929**
	(1,443)	(7,238)	72	-	**(8,609)**
	8,331	(4,921)	116	-	**3,526**
Liquid resources	(1,629)	1,705	(4)	-	**72**
Debt:					
Bank loans and overdrafts included in net cash	(15,424)	(74,122)	1,041	(1,424)	**(89,929)**
Debt due after one year	(151)	(42,565)	(862)	(3,155)	**(46,733)**
	(15,575)	(116,687)	179	(4,579)	**(136,662)**
	(8,873)	(119,903)	291	(4,579)	**(133,064)**

Non-cash changes relate primarily to the interest capitalised as part of the December restructuring.

ANALYSIS AND RECONCILIATION OF NET DEBT (CONTINUED)

	2001 £'000
Increase in cash in the year	8,331
Cash inflow from increase in debt financing	(15,575)
Cash inflow from decrease in liquid resources	(1,629)
Change in net debt resulting from cash flows	(8,873)
Acquisition of subsidiary undertaking	(119,903)
Interest capitalised	(4,362)
Amortisation of debt issue costs	(525)
Management loan notes transferred to ESOP	308
Foreign currency translation difference	291
Movement in net debt in year	(133,064)
Net debt at 31 December 2001	(133,064)

27 FINANCIAL COMMITMENTS

Capital commitments are as follows:

	Group 2001 £'000	Company £'000
Contracted for but not provided for	1,030	-

	Land and buildings 2001 £'000	Other 2001 £'000
Group		
Expiry date:		
- within one year	168	405
- between one and five years	1,201	596
- after five years	485	-
	1,854	1,001

Leases for land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

At 31 December 2001, the Group has £15.7 million of forward contracts to buy or sell foreign currency.

28 PENSIONS AND OTHER POST RETIREMENT BENEFITS

The Group operates a number of plans worldwide. The main plans, which cover the majority of employees, are of the funded defined benefit type. The pensions cost for the Group, including early retirement costs, was £1,665,000 of which £1,156,000 was in respect of foreign schemes. The pension costs are assessed in accordance with the advice of independent qualified actuaries, where practicable, using a variety of methods and assumptions and otherwise, in respect of certain foreign schemes, in accordance with local regulations. The pension cost for the Group in 2001 was based on a normal cost of £2,004,000 and a variation from regular cost of £339,000.

The Group's main UK pension commitments are contained within a defined benefit scheme with assets held in a separate trustee administered fund. Contributions to the scheme are assessed in accordance with the advice of a qualified actuary. The most recent actuarial valuation of the scheme was as at 6 April 2000. The principal assumptions used in the valuation were an average investment return of 6.2% per annum, pay inflation of 3.7% per annum and pension increases of 3.4% per annum on pensions earned before 31 March 2001. Pensions earned from 1 April 2001 are subject to annual increases in line with price inflation to a maximum of 5% per annum. The market value of the assets of the scheme at the date of the actuarial valuation was £29.3m. The actuarial valuation of the scheme assets represented 118% of the actuarial value of its liabilities for benefits that had accrued to members, after allowing for expected future increases in earnings. In accordance with the requirements of Statement of Standard Accounting Practice 24 ("Accounting for Pension Costs") the Group has spread the surplus as a variation over 13 years, being the members' average future working lifetime. The valuation has taken into account the impact of the loss of tax credits on UK equity dividends which was announced in the Budget of July 1997.

A prepayment of £543,000 and a creditor, relating to contributions to the above scheme paid in arrears, of £87,000 are included in the balance sheet.

The Group has several foreign pension schemes certain of which are defined benefit schemes and the majority of which consist of defined contribution arrangements.

The foreign defined benefit schemes are normally assessed triennially by independent actuaries in accordance with local practices and using appropriate assumptions. The largest of these schemes is an unfunded scheme in Germany. This scheme was valued by an independent actuary in January 2001 upon which the 2001 liability and the annual cost have been based. Provisions totalling £2,059,000 are included in the balance sheet (included in note 19) which relate to the net value of the accrued liabilities for pension funds where the assets are held within the Group.

The pension cost under the defined contribution schemes amounted to £1,032,000 for the year. A creditor of £7,000 is included in the balance sheet in relation to these schemes.

The group also operates a number of other plans which principally cover health care and life assurance benefits for its retirees. The costs of these other post-retirement benefits are assessed by independent qualified actuaries and accounted for on an accruals basis. The main assumptions used to determine these costs were a discount rate of 7.0% per annum, and an allowance for the increase in health care costs to stabilise, after a number of years, of approximately 4.5% per annum.

FRS 17 Retirement Benefits

UK Pension Scheme

The valuation used for this disclosure has been based on the most recent actuarial valuation at 6 April 2000 updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

The main assumptions used by the actuary were:

	2001
	%
Rate of increase in salaries	4.0
Rate of increase for pensions in payment accrued up to 1 April 2001	3.5
Rate of increase for pensions in payment after 1 April 2001	2.5
Discount rate	5.8
Inflation	2.5

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

	Rate of return	**Value**
	%	**£'000**
Equities	**8.4**	**20,166**
Bonds	**4.9**	**2,949**
Property	**5.9**	**908**
Cash	**3.4**	**1,394**
Total market value of assets		**25,417**
Present value of scheme liabilities		**29,524**
Deficit in the scheme		**(4,107)**
Related deferred tax liability		**-**
Net pension liability		**(4,107)**

German pension scheme

The valuation used for this disclosure has been based on the most recent actuarial valuation at 14 November 2001 updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

German pension scheme (continued)

The main assumptions used by the actuary were:

	2001
	%
Rate of increase in salaries	4.0
Rate of increase for pensions	1.0
Discount rate	7.0

	Value
	£'000
Total market value of assets	-
Present value of scheme liabilities	(1,997)
Deficit in the scheme	(1,997)
Related deferred tax liability	-
Net pension liability	(1,997)

29 CONTINGENT LIABILITIES

Guarantees amounting to £6.0 million have been issued on behalf of the group in respect of banking facilities used by certain subsidiary undertakings and Customs and Excise bonds. These are secured over the group's assets. As at 31 December 2001, utilisation in respect of the underlying facilities amounted to 3.3 million. Of this amount £2.9 was recorded as group liabilities at the balance sheet date.

Guarantees issued on behalf of the company in respect of banking facilities amounted to £6.0m.

The total open letters of credit outstanding as at 31 December 2001 which may give rise to a liability in the subsequent periods amounted to £0.7 million.