Grant Thornton

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2002

Company no 4061715

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

Company Registration Number:	4061715
Registered Office:	Dunlop House Riverside Way Camberley Surrey GU15 3YL
Directors:	Robert Brooke (Chairman) Philip J Parnell Alan C Lovell Alasdair Marnoch
Secretary:	Alistair J Ritchie
Bankers:	*The Royal Bank of Scotland plc* 280 Bishopsgate London EC2M 4RB
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

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

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DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 DECEMBER 2002

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activity of the Dunlop Slazenger group comprises the manufacture and sale of sports equipment. 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 profit for the year after taxation and minority interests was £11,149,000 (2001: loss of £103,095,000).

The directors do not recommend the payment of a dividend (2001: £nil).

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 group operates worldwide, with significant operations in North America, Western Europe and South East Asia. The main brands of the business are Dunlop, Slazenger and Carlton.

During 2002 a fundamental reorganisation of the group's operations was successfully implemented including the closure of its factories in Germany and the United Kingdom. The Group's profitability improved substantially supported by brand rationalisation, reduced costs and the implementation of revised financing arrangements with the Group's banks.

On 31 December 2002, the group signed an agreement with Taylor Made Golf Company Inc ("TMGC"), the main terms of which were as follows:

- TMGC exercised its option to acquire the Maxfli brand worldwide.
- TMGC entered a supply agreement for the group to supply it with golf balls until 2006.

The net proceeds of this deal have been used to repay £16 million of interest bearing bank debt in January 2003. This has reduced syndicated interest bearing debt from £52.5 million at 31 December 2002 to £36.5 million in January 2003.

Proceeds of £7.4 million have been retained for use in the business to fund peak working capital needs.

The licensing of the Maxfli brand to TMGC on 19 December 2001 has resulted in a drop in turnover as the direct sales to Maxfli customers have been replaced, in part, by the wholesale sale of golf balls to TMGC under the supply agreement. However profitability and utilisation of working capital have both improved with stock and debtors levels showing a significant year on year reduction.

Future prospects

The directors believe that following the improved financial performance of the Group in 2002 and the successful conclusion of the TMGC deal, the financial outlook for the Group continues to strengthen. During 2003 the full benefits from the major restructuring projects started in 2001 will support a further improvement in profitability. Results from the start of 2003 have been encouraging.

The current funding arrangements require £36.5 million of bank debt to be repaid in December 2004. The directors are currently in discussions with the group's banks with a view to fully refinancing the group's capital structure in advance of this deadline.

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. 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:

Robert Brooke (Chairman) (appointed 1 January 2002)
Philip J Parnell
Alan C Lovell

Alasdair Marnoch was appointed director on 30 January 2003.

The directors who held office at 31 December 2002 had the following beneficial interests in the management loan stock of Dunlop Slazenger Group Limited:-

Name of director	**31 December 2002**	1 January 2002
	£	£
Alan C Lovell	47,584	47,584

None of the directors held any shares in the company at 31 December 2002, however, shares held by the Dunlop Slazenger ESOP trust have been allocated to certain employees, including the directors, and these will be granted to them on the achievement of certain performance criteria.

P J Parnell, A C Lovell and the group's bankers entered into an executive incentivisation scheme, whereby bonus remuneration could become payable to the directors 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

Directors' responsibilities (continued)

- 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 £1,000 (2001: £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
28th March 2003

Grant Thornton

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 2002 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 6 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED (CONTINUED)

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 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
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

LONDON
28 March 2003

BASIS OF PREPARATION

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

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.

The directors believe that the Group will be able to trade within the current banking facilities and covenants although the Group's projections indicate that the projected headroom against available facilities is relatively tight during seasonal peak periods. The results of rationalisation carried out during the last two years have given rise to significant improvement to the group's net operating result and working capital position. The directors are continuing the process of rationalising the Group in order to seek further efficiencies and improvements in its financial headroom. This is being conducted in full discussion with the bankers who have indicated their intention to continue to support the Group.

The current funding arrangements require £36.5 million of bank debt to be repaid in December 2004. The directors are currently in discussions with the Group's banks with a view to fully refinancing the Group's capital structure in advance of this deadline.

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 2002. 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.

In the current financial year FRS 19 Deferred tax was adopted.

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax on defined benefit pension scheme surpluses or deficits is adjusted against these surpluses. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

The only exception to this rule relates to timing differences arising from the revaluation of non-monetary assets and the retained earnings of subsidiaries, associates and joint ventures. In these cases, provision is only made where, at the balance sheet date, the group is committed to a course of action that will result in a deferred tax liability being paid.

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.

RECLASSIFICATION

Certain reclassifications have been processed through the comparatives to accord with the 2002 classifications.

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 DECEMBER 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Turnover	1				
Continuing operations			**109,723**		153,168
Discontinued operations			**-**		1,173
			109,723		154,341
Cost of sales	2		**(77,994)**		(108,907)
Gross profit	2		**31,729**		45,434
Provision for impairment of goodwill		**-**		(59,216)	
Other operating charges		**(36,557)**		(76,442)	
	2		**(36,557)**		(135,658)
Operating loss					
Continuing operations			**(4,828)**		(90,175)
Discontinued operations			**-**		(49)
			(4,828)		(90,224)
Exceptional items	3		**22,701**		(4,311)
Interest payable and similar charges	4		**(6,803)**		(8,346)
Interest receivable and similar income	5		**569**		1,004
Profit/(loss) on ordinary activities before taxation	6		**11,639**		(101,877)
Tax on ordinary activities	8		**(373)**		(920)
Profit/(loss) on ordinary activities after taxation			**11,266**		(102,797)
Minority interest	23		**(117)**		(298)
Profit/(loss) for the financial year transferred from reserves	21		**11,149**		(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

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2002

	Note	Group 2002 £'000	Company 2002 £'000	Restated Group 2001 £'000	Company 2001 £'000
Fixed assets					
Goodwill	10	-	-	-	-
Tangible assets	11	**24,478**	-	30,080	-
Investments	12	-	**1**	-	1
		24,478	**1**	30,080	1
Current assets					
Stocks	13	**14,074**	-	26,190	-
Debtors	14	**40,442**	-	25,229	-
Investments	15	**15**	-	17	308
Cash at bank and in hand		**11,095**	-	12,207	-
		65,626	-	63,643	308
Creditors: amounts falling due within one year	16	**(94,942)**	-	(108,570)	-
Net current (liabilities)/assets		**(29,316)**	-	(44,927)	308
Total current liabilities less assets		**(4,838)**	**1**	(14,847)	309
Creditors: amounts falling due after more than one year	17	**(75,798)**	-	(77,492)	-
Provisions for liabilities and charges	19	**(8,751)**	-	(10,580)	-
Net (liabilities)/assets		**(89,387)**	**1**	(102,919)	309
Capital and reserves					
Called up share capital	20	**1**	**1**	1	1
Share premium account	21	**207,740**	**207,740**	207,740	207,740
Foreign currency translation reserve	21	**1,722**	-	(737)	-
Profit and loss account	21	***(299,489)***	***(207,740)***	*(310,806)*	*(207,432)*
Total equity shareholders' deficit	22	**(90,026)**	**1**	(103,802)	309
Minority equity interests	23	**639**	-	883	-
		(89,387)	**1**	(102,919)	309

The financial statements were approved by the Board of Directors on 2003

A Marnoch - Director

A Marnoch
28 March 2003

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

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 DECEMBER 2002

	Note	2002 £'000	2001 £'000
Net cash inflow/(outflow) from operating activities	24	**6,926**	(1,310)
Returns on investments and servicing of finance	25	**(2,923)**	(3,466)
Taxation	25	**888**	*(161)*
Capital expenditure and financial investment	25	**(2,899)**	(3,148)
Costs of a fundamental reorganisation	25	**(1,545)**	(877)
Sale of brand	25	**225**	-
Acquisitions and disposals	25	**-**	88
Cash inflow/(outflow) before management of liquid resources and financing		**672**	(8,874)
Management of liquid resources	25	**54**	1,629
Financing	25	**(4,808)**	15,576
(Decrease)/increase in cash in the year		**(4,082)**	8,331

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

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 DECEMBER 2002

	2002	2001
	£'000	£'000
Profit/(loss) for the financial year	**11,149**	(103,095)
Exchange differences on foreign currency net investments	**2,459**	(737)
Transfers to minority interests	**168**	-
Total recognised gains and losses relating to the year	13,776	(103,832)

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

DUNLOP SLAZENGER GROUP HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

1 SEGMENT INFORMATION

Geographical segments:

	United Kingdom 2002 £'000	**Rest of Europe 2002 £'000**	**United States 2002 £'000**	**Rest of World 2002 £'000**	**Total 2002 £'000**
Turnover by destination	**17,758**	**35,971**	**38,895**	**17,099**	**109,723**
Turnover by origin	**25,090**	**31,304**	**39,944**	**13,385**	**109,723**

	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

Turnover has fallen in 2002 primarily as a result of the TMGC distribution and licence deal signed on 19 December 2001. Direct sales to customers of Maxfli and Slazenger golf products have been replaced by wholesale sales of golf balls to TMGC under the supply agreement. This has led to a net £45 million decrease in turnover year on year.

Discontinued operations

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

	United Kingdom		**Rest of Europe**		**Rest of World**		**Total**	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Turnover by destination: Sales to third parties	-	12	-	-	-	1,161	-	1,173
Turnover by origin: Sales to third parties	-	-	-	-	-	1,173	-	1,173

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 are shown under discontinued operations.

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

	2002			2001		
	Continuing operations £'000	**Discontinued operations £'000**	**Total £'000**	Continuing operations £'000	Discontinued operations £'000	Total £'000
Cost of sales	**(77,994)**	**-**	**(77,994)**	(108,068)	(839)	(108,907)
Gross profit	**31,729**	**-**	**31,729**	45,100	334	45,434
Distribution costs	**(4,745)**	**-**	**(4,745)**	(6,790)	(69)	(6,859)
Administrative expenses	**(37,989)**	**-**	**(37,989)**	(78,469)	(322)	(78,791)
Provision for impairment of goodwill	**-**	**-**	**-**	(59,216)	-	(59,216)
Other operating income	**6,177**	**-**	**6,177**	9,200	8	9,208
Other operating charges (net)	**(36,557)**	**-**	**(36,557)**	(135,275)	(383)	(135,658)

3 EXCEPTIONAL ITEMS

Exceptional items comprise the following:

	2002 £'000	2001 £'000
Profit on disposal of brand	**23,262**	-
Loss on disposal of tangible fixed assets	**(607)**	(905)
Gain on disposal of South African business	**-**	392
Costs of fundamental reorganisations	**46**	(3,798)
	22,701	(4,311)

During the year the group sold the Maxfli brand to Taylor Made Golf Company Inc. The related net profit on this sale has been treated as exceptional. Option payments received in 2001 have been accounted for in other operating income in 2001.

During the year the group completed a fundamental reorganisation of its manufacturing capability which has resulted in the closure of its factories in the United Kingdom and Germany. Income and expenses in respect of this reorganisation have been treated as exceptional.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Bank loans and overdrafts	**3,285**	7,660
Other interest payable	**171**	686
Unrealised exchange loss on foreign currency borrowings less deposits (net)	**3,347**	-
	6,803	8,346

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £'000	2001 £'000
Interest receivable	**27**	44
Unrealised exchange gain on foreign currency deposits less borrowings (net)	**-**	603
Other interest	**542**	357
	569	1,004

6 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) on ordinary activities before taxation is stated after charging:

	2002 £'000	2001 £'000
Depreciation and amounts written off tangible fixed assets		
- owned	**4,914**	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	**934**	1,067
- other	**1,680**	1,814
Auditors' remuneration for audit services	**260**	291
Option payments received	**-**	4,194
Research and development		
- current year expenditure	**804**	1,630

Remuneration of the auditors for non-audit services amounted to £56,000 (2001: £154,000).

7 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2002 £'000	Restated 2001 £'000
Wages and salaries	**29,544**	35,876
Social security costs	**2,777**	3,327
Pension costs	**1,229**	994
	33,550	40,197

DIRECTORS AND EMPLOYEES (CONTINUED)

The average number of employees during the year was:

	2002 Number	2001 Number
Manufacturing	**1,038**	1,146
Administration	**379**	538
Sales and marketing	**158**	310
Research and development	**20**	26
	1,595	2,020

Remuneration in respect of directors was as follows:

	2002 £'000	2001 £'000
Emoluments	**478**	430
Deferred bonus	**142**	84
Company contributions to a defined benefit scheme	**15**	13
Company contributions to other retirement schemes	**69**	68
	704	595

During the period 2 directors (2001: 2) participated in defined benefit pension schemes and 2 (2001: 2) directors participated in money purchase pension schemes.

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

	2002 £'000	2001 £'000
Emoluments	**240**	217
Deferred bonus	**77**	38
Company contributions to a defined benefit scheme	**6**	5
Pension contributions to money purchase pension schemes	**50**	45
	373	305

The highest paid director's accrued pension at the year end was £8,100 (2001: £6,360) and the highest paid director's accrued lump sum was £nil (2001: £nil).

Directors' interests in transactions

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

8 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
Analysis of charge for the year		
The tax charge is based on the profit/(loss) for the year and comprises:		
Current tax:		
Overseas taxation	**343**	845
Withholding tax suffered on foreign source income	**228**	136
	571	981
Adjustments in relation to prior years	**(198)**	(57)
Total current tax	**373**	924
Deferred tax	**-**	(4)
Tax on profit/(loss) on ordinary activities	**373**	920

Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 30% (2001: 30%)
The differences are explained as follows:

	2002 £'000	2001 £'000
Profit/(loss) on ordinary activities before tax	**11,639**	(101,877)
Profit/(loss) on ordinary activities before tax multiplied by standard rate of corporation tax in the United Kingdom of 30% (2001: 30%)	**3,492**	(30,563)
Effect of:		
Expenses not deductible for tax purposes (2001: mainly provision for impairment of goodwill)	**289**	16,902
Timing differences (including capital allowances in excess of depreciation)	**2,596**	4,069
Utilisation of brought forward tax losses	**(11,396)**	(1,495)
Current year losses	**4,824**	13,917
Varying tax rates on overseas earnings	**766**	(1,849)
Adjustments to tax charge in respect of prior periods	**(198)**	(57)
Total current tax	**373**	924

Factors that may affect future tax charges

The group is carrying forward substantial unrelieved tax losses and deferred deductions. These are in the region of £100 million which remain available to offset against future taxable trading profits. Sufficient deferred tax assets have been recognised on these losses to offset appropriate deferred tax liabilities. The balance has not been recognised because there is insufficient evidence that the deferred tax asset will be recoverable.

Due to the historical loss position of the group, the United Kingdom companies have in recent years disclaimed capital allowances. Consequently the group will be able to claim capital allowances in excess of depreciation in future years. However as in the case of the tax losses, the group has not recognised deferred tax on this timing difference as it is not more likely than not that there will be sufficient profits in the foreseeable future to offset this timing difference. The amount of this unrecognised deferred tax asset is £2.6 million.

TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

Deferred tax has not been provided on earnings retained overseas as no commitment has been made to the remittance of the earnings.

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 £308,000 (2001: £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	
At 1 January 2002 and 31 December 2002	59,216
Amortisation	
At 1 January 2002 and 31 December 2002	59,216
Net book amount at 31 December 2002	-
Net book amount at 31 December 2001	-

11 TANGIBLE FIXED ASSETS

GROUP

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2002	8,668	62,940	71,608
Additions	21	2,904	2,925
Disposals	(763)	(9,992)	(10,755)
Exchange adjustment	(629)	(4,869)	(5,498)
At 31 December 2002	**7,297**	**50,983**	**58,280**
Depreciation			
At 1 January 2002	3,206	38,322	41,528
Charge for year	140	4,774	4,914
Disposals	(662)	(9,055)	(9,717)
Exchange adjustment	(161)	(2,762)	(2,923)
At 31 December 2002	**2,523**	**31,279**	**33,802**
Net book amount at 31 December 2002	**4,774**	**19,704**	**24,478**
Net book amount at 31 December 2001	**5,462**	**24,618**	**30,080**

TANGIBLE FIXED ASSETS (CONTINUED)

The net book amount of land and buildings (including those held for resale) comprises freehold £4,548,000 (2001: £5,126,000) and short leasehold £226,000 (2001: £336,000).

Freehold land amounting to £739,000 (2001: £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	
At 1 January 2002 and 31 December 2002	1
Amounts written off	
At 1 January 2002 and 31 December 2002	-
Net book amount at 31 December 2002	1
Net book amount at 31 December 2001	1

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.

FIXED ASSET INVESTMENTS (CONTINUED)

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 Sports Canada Inc.	Canada	-	100
Dunlop Slazenger Holdings Inc.*	USA	-	100
Dunlop Sports Group Americas Inc	USA	-	100
Dunlop Slazenger Manufacturing LLC	USA	-	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.

13 STOCKS

	Group 2002 £'000	**Company 2002 £'000**	Group 2001 £'000	Company 2001 £'000
Raw materials and consumables	**2,692**	-	3,102	-
Work-in-progress	**1,994**	-	3,531	-
Finished goods and goods for resale	**9,388**	-	19,557	-
	14,074	-	26,190	-

14 DEBTORS

	Group 2002 £'000	**Company 2002 £'000**	Group 2001 £'000	Company 2001 £'000
Amounts falling due within one year:				
Trade debtors	**12,186**	-	20,069	-
Taxation	-	-	767	-
Other debtors	**24,814**	-	2,082	-
Prepayments and accrued income	**3,442**	-	2,287	-
	40,442	-	25,205	-
Amounts falling due after more than one year:				
Taxation	-	-	24	-
	40,442	-	25,229	-

Other debtors includes £23.3 million of proceeds due from the sale of the Maxfli brand. These were received in January 2003.

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. These loans notes have been provided for in full in 2002.

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. 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 2002 £'000	**Company 2002 £'000**	Group 2001 £'000	Company 2001 £'000
Bank loans and overdrafts	**65,207**	-	67,866	-
Trade creditors	**13,369**	-	20,946	-
Other taxation and social security	**1,114**	-	1,175	-
Other creditors	**829**	-	1,381	-
Accrued pension scheme contributions	**17**	-	94	-
Accruals and deferred income	**13,939**	-	17,108	-
Corporation tax payable	**467**	-	-	-
	94,942	-	108,570	-

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2002 £'000	**Company 2002 £'000**	Group 2001 £'000	Company 2001 £'000
Loan notes	**313**	-	313	-
Bank loans and overdrafts	**75,443**	-	77,092	-
Other creditors	**42**	-	87	-
	75,798	-	77,492	-

Bank loans and overdrafts falling due after more than one year consist of term loans and a non-performing working capital facility. This non performing debt does not bear interest.

18 BORROWINGS

	Group 2002 £'000	**Company 2002 £'000**	Group 2001 £'000	Company 2001 £'000
Within one year				
Bank loans and overdrafts payable by instalments	**949**	-	500	-
Bank loans and overdrafts payable	**52,527**	-	58,757	-
Bank loans and overdrafts payable on demand	**11,731**	-	8,609	-
After one and within two years				
Bank loans and overdrafts payable by instalments	**190**	-	845	-
After two and within five years				
Bank loans and overdrafts payable by instalments	**101**	-	323	-
Bank loans and overdrafts payable	**75,152**		75,924	-
After five years				
Loan notes	**313**	-	313	-
	140,963	-	145,271	-

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 £139.3 million (2001: £143.6 million). The interest rates on performing syndicated debt was at a margin of 2.125% above LIBOR per annum.

Restructuring

On 31 December 2002, the group signed an agreement with Taylor Made Golf Company Inc ("TMGC"), the main terms of which were as follows:

- TMGC exercised its option to purchase the Maxfli brand worldwide.
- TMGC entered a supply agreement for the group to supply it with golf balls until 2006.

The net proceeds of this deal have been used to repay £16 million of bank debt in 2003, with a further £7.4 million being retained by the business to fund working capital needs.

19 PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Deferred taxation £'000	Other £'000	Post retirement benefits £'000	Pensions £'000	Provisions for warranties £'000	Total £'000
At 1 January 2002	35	5,693	2,343	2,459	50	10,580
Provided	-	973	-	225	-	1,198
Released	-	(142)	(85)	(69)	(14)	(310)
Utilised	(1)	(2,533)	-	(97)	-	(2,631)
Exchange difference	1	(23)	(213)	146	3	(86)
At 31 December 2002	**35**	**3,968**	**2,045**	**2,664**	**39**	**8,751**

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 is as follows:

	2002 £'000	2001 £'000
Accelerated capital allowances	**35**	35
Short term differences	**540**	1,417
Tax losses carried forward	**(540)**	(1,417)
Deferred tax	**35**	35
Provision at 1 January 2002	**35**	
Deferred tax charge in profit and loss account for year	**-**	
Provision at 31 December 2002	**35**	

At 31 December 2002 and 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 2002 and 2001 because of insufficient evidence of the recoverability of the deferred tax assets. The accumulated reserves of the overseas subsidiary undertakings would be subject to additional taxation if remitted.

20 CALLED UP EQUITY SHARE CAPITAL

	2002 Number	2002 £	2001 Number	2001 £
Authorised				
'A' ordinary shares of 0.01p each	**7,000,000**	**700**	7,000,000	700
Ordinary shares of 0.01p each	**3,000,000**	**300**	3,000,000	300
		1,000		1,000
Allotted, called-up and fully paid				
'A' ordinary shares of 0.01p each	**3,010,000**	**301**	3,010,000	301
Ordinary shares of 0.01p each	**3,000,000**	**300**	3,000,000	300
		601		601

CALLED UP EQUITY SHARE CAPITAL (CONTINUED)

Warrant

Hawker Siddeley was issued with a warrant on 8 February 2001. This warrant gives it the option to require Dunlop Slazenger Group Holdings Limited to issue it with fully paid 'A' ordinary shares in the company sufficient to give it 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
At 1 January 2002	207,740	(737)	(310,806)	(103,803)
Currency fluctuations				
- net assets	-	10,201	-	10,201
- long term borrowings	-	(6,505)	-	(6,505)
- retained profits	-	(1,237)	-	(1,237)
Retained profit for the year	-	-	11,149	11,149
Transfers to minority interest	-	-	168	168
At 31 December 2002	**207,740**	**1,722**	**(299,489)**	**(90,027)**

Company

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2002	207,740	(207,432)	308
Retained loss for the year	-	(308)	(308)
At 31 December 2002	**207,740**	**(207,740)**	-

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
Profit/(loss) for the financial period	11,149	(308)
Other recognised gains and losses	2,459	-
Transfer to minority interest	168	-
Net decrease/(increase) in shareholders' deficit	13,776	(308)
Shareholders' (deficit)/funds at 1 January 2002	(103,802)	309
Shareholders' (deficit)/funds at 31 December 2002	**(90,026)**	**1**

23 MINORITY INTERESTS

	£'000
At 1 January 2002	883
Adjustment to prior year minority interest	(168)
Profit on ordinary activities after taxation	117
Dividends paid	(86)
Currency fluctuations	(107)
At 31 December 2002	**639**

Minority interests represent amounts attributable to equity interests.

24 RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Operating loss	**(4,828)**	(90,224)
Depreciation charges	**4,914**	5,851
Provision for impairment of tangible fixed assets	**-**	833
Provision for impairment of goodwill	**-**	59,216
Decrease in stocks	**10,029**	12,113
Decrease in debtors	**6,801**	2,041
(Decrease)/increase in creditors	**(10,165)**	6,743
(Decrease)/increase in provisions	**(169)**	1,869
Foreign exchange differences relating to foreign currency net investments	**344**	164
Other	**-**	84
Net cash inflow/(outflow) from operating activities	**6,926**	(1,310)

Net cash inflow/(outflow) from operating activities comprises:

	2002 £'000	2001 £'000
Continuing activities	**6,926**	(1,757)
Discontinued activities	**-**	447
	6,926	(1,310)

25 **ANALYSIS OF CASH FLOWS**

	2002 £'000	2001 £'000
Returns on investments and servicing of finance		
Interest received	**569**	81
Interest paid	**(3,406)**	(3,462)
Dividends paid to minority interests	**(86)**	(85)
Net cash outflow	**(2,923)**	(3,466)
Taxation		
Overseas tax received/(paid)	**888**	(161)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(2,914)**	(3,174)
Sale of tangible fixed assets	**15**	31
Purchase of unlisted investments	**-**	(5)
Net cash outflow	**(2,899)**	(3,148)
Costs of a fundamental reorganisation		
Exceptional profit/(loss) on fundamental reorganisation	**46**	(3,798)
(Decrease)/increase in provisions	**(2,007)**	1,574
Provision for impairment of fixed assets	**-**	1,347
Proceeds on sale of fixed assets	**416**	-
Net cash outflow	**(1,545)**	(877)
Sale of brand		
Exceptional profit on sale of brand	**23,262**	-
Deferred consideration	**(24,900)**	-
Increase in provision	**260**	-
Decrease in stock	**1,296**	-
Increase in creditors	**307**	-
Net cash inflow	**225**	-
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	**54**	1,629

ANALYSIS OF CASH FLOWS (CONTINUED)

	2002 £'000	2001 £'000
Financing		
(Decrease)/increase in short term borrowings	**(4,549)**	15,874
Repayments of secured bank loans	**-**	(147)
New secured bank loans	**112**	151
Repayments of unsecured bank loans	**(371)**	(312)
New unsecured bank loans	**-**	9
	(4,808)	15,575
Issue of share capital	**-**	1
Net cash (outflow)/inflow	**(4,808)**	15,576

26 ANALYSIS AND RECONCILIATION OF NET DEBT

	At 1 January 2002 £'000	**Cash flow £'000**	**Exchange movement £'000**	**Other non-cash changes £'000**	**At 31 December 2002 £'000**
Net cash:					
Cash at bank and in hand	12,207	(1,030)	(82)	-	**11,095**
Less: deposits treated as liquid resources	(72)	54	(5)	-	**(23)**
	12,135	(976)	(87)	-	**11,072**
Bank loans and overdraft	(67,866)	1,702	1,781	(824)	**(65,207)**
Less: financing	59,257	(4,808)	(1,797)	824	**53,476**
	(8,609)	(3,106)	(16)	-	**(11,731)**
	3,526	(4,082)	(103)	-	**(659)**
Liquid resources	72	(54)	5	-	**23**
Debt:					
Bank loans and overdrafts included in net cash	(59,257)	4,808	1,797	(824)	**(53,476)**
Debt due after one year	(77,405)	-	825	824	**(75,756)**
	(136,662)	4,808	2,622	-	**(129,232)**
	(133,064)	672	2,524	-	**(129,868)**

ANALYSIS AND RECONCILIATION OF NET DEBT (CONTINUED)

	2002 **£'000**	2001 £'000
(Decrease)/increase in cash in the year	**(4,082)**	8,331
Cash outflow/(inflow) from decrease/(increase) in debt financing	**4,808**	(15,575)
Cash inflow from decrease in liquid resources	**(54)**	(1,629)
Change in net debt resulting from cash flows	**672**	(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	**2,524**	291
Movement in net debt in year	**3,196**	(133,064)
Net debt at 31 December 2002	**(129,868)**	(133,064)

27 FINANCIAL COMMITMENTS

Capital commitments are as follows:

	Group 2002 £'000	**Company 2002 £'000**	Group 2001 £'000	Company 2001 £'000
Contracted for but not provided for	**-**	**-**	1,030	-

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

	Land and buildings 2002 £'000	**Other 2002 £'000**	Land and buildings 2001 £'000	Other 2001 £'000
Group				
Expiry date:				
- within one year	**84**	**112**	168	405
- between one and five years	**954**	**423**	1,201	596
- after five years	**659**	**-**	485	-
	1,697	**535**	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 2002, the Group has £19.4 million (2001: £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, most of which are of the funded defined benefit type. The pensions cost for the Group, including early retirement costs, was £1,229,000 (2001: £994,000) of which £592,000 (2001: £493,000) 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 2002 was based on a normal cost of £1,136,000 (2001: £1,356,000), a variation from regular cost of £128,000 (2001: deduction of (£339,000)) and an interest cost of £35,000 (2001: £23,000).

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 2002. The principal assumptions used in the valuation were an average investment return of 7.1% per annum (2001: 6.2%), pay inflation of 3.8% per annum (2001: 3.7%) and pension increases of 3.6% per annum (2001: 3.4%) 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 £25.7 million (2001: £29.3 million). The actuarial valuation of the scheme assets represented 98% (2001: 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 variation over 13 years, being the members' average future working lifetime. The valuation has taken into the 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 £490,000 (2001: £543,000) and a creditor, relating to contributions to the above scheme paid in arrears, of £8,000 (2001: £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 December 2002 upon which the 2002 liability and the annual cost have been based. Provisions totalling £2,264,000 (2001: £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 £484,000 (2001: £428,000) for the year. A creditor of £9,000 (2001: £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.

PENSIONS AND OTHER POST RETIREMENT BENEFITS

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 2002 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 2002. Scheme assets are stated at their market value at 31 December 2002.

The main assumptions used by the actuary were:

	2002	2001
	%	%
Rate of increase in salaries	**3.3**	4.0
Rate of increase for pensions in payment accrued up to 1 April 2001	**3.5**	3.5
Rate of increase for pensions in payment after 1 April 2001	**2.2**	2.5
Discount rate	**5.5**	5.8
Inflation	**2.3**	2.5

	2002 Rate of return %	**2002 Value £'000**	2001 Rate of return %	2001 Value £'000
Equities	**8.0**	**13,253**	8.4	20,166
Bonds	**4.5**	**5,893**	4.9	2,949
Property	**5.5**	**941**	5.9	908
Other	**3.5**	**173**	3.4	1,394
Total market value of assets		**20,260**		25,417
Present value of scheme liabilities		**(33,262)**		(29,524)
Deficit in the scheme		**(13,002)**		(4,107)
Net pension liability		**(13,002)**		(4,107)

RETIREMENT BENEFITS (CONTINUED)

	2002 £'000
Service cost	614
Past service cost	(700)
Credit to operating profit	(86)
Interest cost on pension scheme liabilities	1,733
Expected return on pension scheme assets	(1,958)
Financing income	(225)

The movement in the deficit in the year was:

	2002 £'000
Deficit in scheme at 1 January 2002	(4,107)
Current service cost	(614)
Contributions	495
Past service costs	700
Other finance income	225
Actuarial loss	(9,701)
Deficit in scheme at 31 December 2002	(13,002)

German pension scheme

The valuation used for this disclosure has been based on the most recent actuarial valuation at 31 December 2002 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 2002.

The main assumptions used by the actuary were:

	2002 %	2001 %
Rate of increase in salaries	4.0	4.0
Rate of increase in pensions	1.0	1.0
Discount rate	7.0	7.0
	£'000	£'000
Total market value of assets	-	-
Present value of scheme liabilities	(2,222)	(1,997)
Deficit in the scheme	(2,222)	(1,997)
Related deferred tax liability	-	-
Net pension liability	(2,222)	(1,997)

RETIREMENT BENEFITS (CONTINUED)

German scheme

	2002
	£'000
Service cost	**(23)**
Past service cost	**-**
Credit to operating profit	**(23)**
Interest cost on pension scheme liabilities	**140**
Expected return on pension scheme assets	**-**
Charge to financing costs	**140**

The movement in the deficit in the year was:

	2002
	£'000
Deficit in scheme at 1 January 2002	**(1,997)**
Current service costs	**23**
Other finance expense	**(140)**
Actuarial gain	**19**
Exchange on translation	**(127)**
Deficit in scheme at 31 December 2002	**(2,222)**

US post retirement benefits scheme

The valuation used for this disclosure has been based on the most recent actuarial valuation at 1 January 2002 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 2002.

The main assumptions used by the actuary were:

	2002	*2001*
	%	%
Discount rate	**7.0**	7.0
	£'000	£'000
Total market value of assets	**-**	-
Present value of scheme liabilities	**(2,135)**	(2,429)
Deficit in the scheme	**(2,135)**	(2,429)
Past service awards not yet vested	**90**	-
Net post retirement benefit liability	**(2,045)**	(2,429)

RETIREMENT BENEFITS (CONTINUED)

	2002 £'000
Service cost	-
Past service cost	(15)
Credit to operating profit	(15)
Interest cost on pension scheme liabilities	157
Expected return on pension scheme assets	-
Charge to financing costs	157
Deficit in scheme at 1 January 2002	(2,429)
Current service costs	-
Contributions	230
Gains/losses on settlements and curtailments	-
Past service costs	15
Other finance income	(157)
Actuarial gain/loss	-
Exchange on translation	206
Deficit in scheme at 31 December 2002	(2,135)

29 CONTINGENT LIABILITIES

Guarantees amounting to £6.8 million (2001: £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 2002, utilisation in respect of the underlying facilities amounted to £3.4 million (2001: £3.3 million). Of this amount £2.8 million (2001: £2.9 million) was recorded as group liabilities at the balance sheet date.

The total open letters of credit outstanding as at 31 December 2002 which may give rise to a liability in subsequent periods amounted to £nil (2001: £0.7 million).