Chairman's statement

2003 was an important year for Low & Bonar and I am pleased with the early progress made under the stewardship of Paul Forman, during his first full year as Group Chief Executive, in overcoming some of the difficulties we have faced in the recent past. The improved operational performance across the Group, together with the acquisition and successful integration of the carpet tile division of Gaskell plc, have resulted in an increase in both profit and earnings per share. Looking ahead, we have started a number of Group-wide initiatives geared towards generating organic growth in the near term, key to which is product development.

The original Floors Division had a successful year. In addition, the acquisition and integration of the Tiles business, now named Bonar Tiles, was completed and has performed to expectations established at the time of the acquisition. The focus of the new management team on costs and operational controls has delivered significant margin improvement.

Our Yarns & Fabrics Division saw continued progress both in sales and profits. The Belgian operation has maintained its improvement whilst the Dundee operation continues to exploit its leading position in the growing artificial grass market.

The Plastics businesses performed more satisfactorily than last year, particularly France, which eliminated the losses incurred in the prior year to reach a break-even position in the latter months. All geographic segments of our Plastics businesses grew profits despite difficult markets.

Financial performance

Turnover increased to £191.7m (2002: £162.6m), primarily reflecting the contribution from Bonar Tiles, acquired in February 2003. Operating profits before exceptional items increased to £11.1m compared to £7.7m the previous year, including a contribution from Bonar Tiles, before amortisation of goodwill, of £2.4m.

Exceptional items of £0.9m relate to the restructuring of the Floors Division and the integration of Bonar Tiles. Exceptional items of £1.3m in 2002 related to closure costs in our Bonar Floors US operation and senior management changes.

Profit before tax was £9.2m (2002: £4.5m). Earnings per share before exceptional items were 6.69p (2002: 4.88p).

Profit after tax was £6.0m up from £2.1m in 2002. Basic earnings per share were 6.05p (2002: 2.08p).

Strong operating cash flow of £19.4m together with good cash management resulted in net cash of £10.4m, despite the £19.3m acquisition of the Gaskell Carpet Tiles business in February 2003.

Dividends

The Board is recommending a final ordinary dividend of 2.70p (2002: 1.50p) payable on 28 April 2004 to shareholders on the register on 2 April 2004, making a total ordinary dividend for the year of 4.20p (2002: 4.00p). This represents a 5% increase over the previous year. In the short term we will increase dividends prudently until an improved level of cover is established; the Group then intends to adopt a more progressive dividend policy.

Employees

The management team has been strengthened by a number of new appointments in the last year. The Board is grateful for the positive way both the new and old members of the staff have responded to the challenges set them by the Board and the trading environment and I would like to thank all the Group employees for their efforts throughout the year. I would also like to welcome the new employees who joined the Group with the acquisition of Bonar Tiles.

Alan Cole retires from the Board after six years of invaluable service as a non-executive director through some particularly difficult times. I should like to offer the Company's, and especially my own personal thanks to him for his unfailing dedication, common sense and support.

Outlook

In the short term, we expect the UK, our largest single market, to show continued signs of modest recovery. This is less true of Continental Europe where a more mixed picture is anticipated, with Germany and Benelux likely to remain sluggish. For these markets we see a flat demand in the short term but possibly some recovery in the latter part of the year or beyond, as the overall economic climate improves. Demand in the North American market remains very patchy but there are some encouraging pockets of growth in an environment of very limited industrial recovery. Our medium-term prognosis for the majority of these markets remains one of underlying, albeit limited, growth. Asia is a relatively small market for us currently, but presents some interesting growth opportunities, particularly for the Yarns & Fabrics and Floors Divisions.

Overall our businesses have delivered better performance in 2003, primarily through focus on operational improvement, and we are working hard to ensure this trend continues. We have put in place the foundations to generate organic sales growth and we will continue to build on them with additional dedicated resource and capital and revenue expenditure. We will also consider value-creating acquisition opportunities where they complement and build on the strengths within our current portfolio of market-leading businesses.

Duncan Clegg *Chairman*