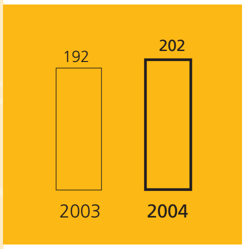
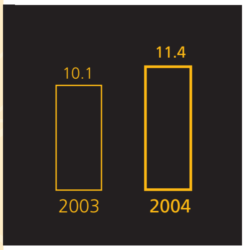
Chairman's statement

I am pleased to report that 2004 continued the Group's progress started in 2003. Our pre-exceptional earnings per share growth of 15% represents another encouraging step towards more acceptable profitability levels, especially in the context of the twin challenges of high raw material prices and subdued market demand.

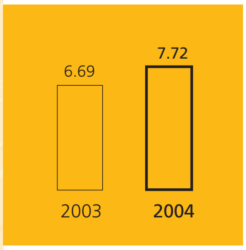
Turnover (£million)



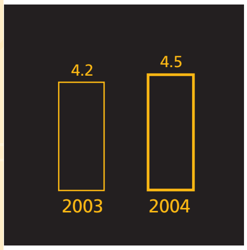
Profit before tax and exceptionals (£million)



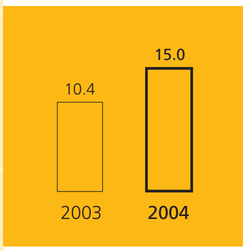
Earnings per share before exceptionals (pence)



Dividend per share (pence)



Net cash (£million)



Within this positive overall achievement, specific highlights include the level of organic sales growth being achieved in much of the Group, our continued control of operating costs, and the strong performance on managing cash flow. This progress is being underpinned by the further strengthening of our management team. Our Yarns & Fabrics Division acquired Yihua Bonar during the year and ADFIL shortly after the year end and both of these will be earnings enhancing in the current year. We will continue our focus on growing organically and through acquisitions, making necessary investments in marketing and product development to build our capabilities for sustaining growth in the longer term, whilst also driving short-term profitability.

Our Floors Division grew sales and maintained good margins despite the anticipated dilutive impact of the MoD contract. The acquired carpet tiles business, Tessera, incurred a number of one-off and structural additional costs as a result of warehousing relocation and this reduced profit by £0.9 million. The rest of the Division grew profit marginally despite a competitive pricing environment and achieved its first year-on-year revenue growth in five years.

Our Yarns & Fabrics Division successfully managed the challenges of high raw material prices and tough markets to deliver an excellent result, growing profit by some 50%. The Belgian operation continued its strong recovery, the Dundee operation grew sales and operating profit in a buoyant artificial grass market and our Chinese acquisition, Yihua Bonar, met our internal expectations. We look forward to seeing the progress of our most recent acquisition, in December 2004, of ADFIL, a business manufacturing and supplying specialist surface protection fibres to the concrete industry.

Our Plastics Division continued its recovery with margins and operating profit growing, despite high polyethylene costs, although sales weakened. It is encouraging to note that, following the introduction of a new Divisional management structure, the Division enjoyed its best collective financial performance for at least three years in the second half of 2004.

Financial performance

Turnover increased to £201.7m (2003: £191.7m), reflecting the contribution of Yihua Bonar from July 2004, as well as stronger organic growth. Operating profits before exceptional items increased to £12.1m compared with £11.1m the previous year. This is after deducting a goodwill amortisation charge of £0.6m (2003: £0.4m). Exceptional costs of £0.4m were incurred relating to legal fees in connection with the Group's defence against an alleged infringement of European Union anti-competitive laws by a business disposed of in 1997.

Profit before tax was £10.9m (2003: £9.2m). Earnings per share before exceptional items were 7.72p (2003: 6.69p). Profit after tax, but before minority interests, grew to £7.5m (2003: £6.0m). Basic earnings per share were 7.43p (2003: 6.05p).

Strong cash flow from operating activities of £21.4m aided the achievement of a year end net cash balance of £15.0m, despite more than £2m being spent on our acquisition of Yihua Bonar. The acquisition of ADFIL in December 2004 consumed a further £10m of this cash.

Dividends

The Board is recommending a final ordinary dividend of 2.90p (2003: 2.70p) payable on 27 April 2005 to shareholders on the register on 1 April 2005, making a total ordinary dividend for the year of 4.50p (2003: 4.20p). This is consistent with our stated policy of increasing dividends prudently until an acceptable level of cover has been established. The dividend level for 2004 is 1.72 times covered by pre-exceptional earnings per share.

European Commission update

As previously announced, the Group is one of a number of groups which has received a statement of objections from the European Commission investigating allegations of a cartel relating to industrial bags, a market which the Group exited in 1997 following the sale of its Belgian packaging business to British Polythene Industries PLC. The turnover of the Belgian packaging business in 1997 was approximately £17m of which industrial bags was a minority. The Company attended the oral hearing of the European Commission in July 2004; a decision is expected from the European Commission during 2005.

Employees

Much hard work and dedication has been applied throughout the Group to deliver this continued recovery. The Board is grateful to all our employees for the positive way they have responded to and implemented the many internally-driven changes whilst coping with the demanding external factors referred to earlier. We also welcome all those new employees of Low & Bonar from Yihua Bonar and ADFIL. Paul Forman will refer to our increased focus and investment in training in his Group Chief Executive's review; this initiative is regarded by the Board as vital for sustaining and accelerating our progress, and represents a significant break from past behaviours.

Outlook

We have demonstrated our capability to grow organically in markets that are, in general, linked to the health of the European and North American industrial sectors and which have been broadly subdued. In aggregate we see little change to this pattern. Mild recovery in Continental Europe might be offset by a slight slowing of demand in the UK. Of greater significance to our profitability in 2005 are our ability to gain market share, control our operating costs and mitigate raw material price rises through increasing selling prices. I place more reliance on our ability to achieve these factors than on a major stimulus to our markets from strong macro-economic recovery. At the time of writing there are some tentative signs that the significant escalation in our raw material prices over the last 12 months may be easing and this would offer a benefit should they indeed reduce slightly. Although there are some product or geographic segments that we expect to show significant growth, our medium-term prognosis remains one of positive but GDP driven growth. Progress will be driven in 2005 and beyond by continued organic sales growth and productivity enhancements, allied to further strategically attractive acquisitions in the Floors and Yarns & Fabrics Divisions.

Duncan Clegg Chairman