

# Notes to the Accounts

## 1. Segmental information

	Turnover		Profit		Net assets	
	2005 £000	2004 £000	2005 £000	2004 Restated £000	2005 £000	2004 Restated £000
<b>Classes of business</b>						
Floors	97,725	83,132	9,316	9,699	38,225	37,060
Yarns & Fabrics						
– existing businesses	67,749	59,290	6,111	5,334	24,393	30,171
– acquisitions	9,929	–	1,214	–	23,298	–
Total Yarns & Fabrics	77,678	59,290	7,325	5,334	47,691	30,171
Total Specialist Materials	175,403	142,422	16,641	15,033	85,916	67,231
Plastics – discontinued operations	51,583	59,229	536	1,246	–	28,895
	226,986	201,651	17,177	16,279	85,916	96,126
Central costs			(4,901)	(3,838)		
Operating profit before exceptional items			12,276	12,441		
Exceptional operating items			(1,200)	(423)		
Operating profit			11,076	12,018		
Exceptional non-operating items			(36,622)	–		
Net interest payable			(1,017)	(981)		
Group (loss)/profit before taxation			(26,563)	11,037		
Non-operating liabilities					(33,555)	(34,276)
Net cash					12,830	14,953
Total net assets					65,191	76,803
<b>Geographical segments</b>						
<b>By origin</b>						
United Kingdom	90,886	69,438	8,949	7,603	43,849	37,719
Continental Europe	111,775	110,233	7,507	7,925	36,630	42,901
North America	19,009	20,360	134	483	–	11,781
Asia	5,316	1,620	587	268	5,437	3,725
	226,986	201,651	17,177	16,279	85,916	96,126
Central costs			(4,901)	(3,838)		
Operating profit before exceptional items			12,276	12,441		
Exceptional operating items			(1,200)	(423)		
Operating profit			11,076	12,018		
Exceptional non-operating items			(36,622)	–		
Net interest payable			(1,017)	(981)		
Group (loss)/profit before taxation			(26,563)	11,037		
Non-operating liabilities					(33,555)	(34,276)
Net cash					12,830	14,953
Total net assets					65,191	76,803
<b>Turnover by destination</b>						
United Kingdom	62,505	49,735				
Continental Europe	114,140	108,039				
North America	33,631	29,041				
Rest of World	16,710	14,836				
	226,986	201,651				

Turnover represents external sales invoiced by Low & Bonar PLC and its subsidiaries. Turnover between segments is not material.

The segment discloses the result of the Divisions with central costs shown separately.

Non-operating liabilities represent other debtors greater than one year, tax and deferred tax, dividends, deferred consideration, provisions, net pension scheme deficit and equity minority interests.

## 2. Operating profit

	Continuing £000	Acquisitions £000	Discontinued £000	<b>2005 Total £000</b>	2004 Restated Total £000
Turnover	165,474	9,929	51,583	<b>226,986</b>	201,651
Cost of sales	(106,125)	(6,734)	(39,489)	<b>(152,348)</b>	(129,803)
Gross profit	59,349	3,195	12,094	<b>74,638</b>	71,848
Distribution costs	(11,699)	(1,230)	(1,164)	<b>(14,093)</b>	(12,708)
Administration costs	(38,324)	(751)	(10,394)	<b>(49,469)</b>	(47,122)
Other operating costs	(50,023)	(1,981)	(11,558)	<b>(63,562)</b>	(59,830)
Operating profit	9,326	1,214	536	<b>11,076</b>	12,018
Operating profit is stated after charging/(crediting)					
Depreciation				<b>6,844</b>	7,553
Amortisation of goodwill				<b>1,310</b>	583
Research and development costs				<b>1,653</b>	1,810
Operating lease charges – plant				<b>1,195</b>	1,181
– buildings				<b>725</b>	702
Government grants				<b>(65)</b>	(73)
Auditor's remuneration				<b>270</b>	321
Auditor's and affiliates' remuneration for non audit work				<b>440</b>	355

The Auditor's remuneration for the Company, included above, was £86,000 (2004: £77,000).

The spend on non audit fees, of which £440,000 (2004: £355,000) was charged to operating profit and £30,000 (2004: £53,000) was capitalised within acquisition costs (note 24), and £165,000 (2004: £nil) was charged to exceptional non-operating items (note 7), is analysed as follows

	<b>2005 £000</b>	2004 £000
Acquisition due diligence/planning	<b>70</b>	71
Corporate tax compliance	<b>117</b>	156
Corporate tax consultancy	<b>226</b>	94
Other	<b>222</b>	87
	<b>635</b>	408

Total amounts paid to the Auditor and affiliates during 2005 was £905,000 (2004: £729,000).

## Notes to the Accounts continued

### 3. Staff costs

	2005 Number	2004 Number
Average number of employees by activity		
Floors	679	666
Yarns & Fabrics	879	555
Plastics	767	1,032
	<b>2,325</b>	2,253
	<b>2005 £000</b>	2004 Restated £000
Employee costs		
Wages and salaries	48,045	47,980
Social security costs	8,308	8,844
Other pension costs	2,200	2,832
	<b>58,553</b>	59,656

### 4. Directors' remuneration

Details of Directors' remuneration, share options, Long Term Incentive Plan interests and pension entitlements are given in the Directors' Report on Remuneration on pages 22 to 27 and form part of the financial statements.

### 5. Directors' interests

Details of Directors' interests in the share capital of the Company are given in the Directors' Report on Remuneration on pages 22 to 27 and form part of the financial statements.

### 6. Exceptional operating items

	2005 £000	2004 £000
Legal costs	–	(423)
Floors restructuring	(1,111)	–
Capital reorganisation costs	(89)	–
	<b>(1,200)</b>	(423)

The effect of the exceptional operating items is to decrease the tax charge by £360,000 (2004: £134,000).

### 7. Exceptional non-operating items

	2005 £000	2004 £000
Loss on disposal of Plastics Division	(7,779)	–
Goodwill previously written off to reserves transferred to profit and loss account	(20,637)	–
Loss on disposal of business	(28,416)	–
EU fine related to previously disposed business	(8,439)	–
Gain on sale of fixed assets	233	–
	<b>(36,622)</b>	–

The effect of the exceptional non-operating items is to increase the tax charge by £80,000 (2004: £nil).

## 8. Net interest payable

	2005 £000	2004 Restated £000
Interest payable		
– on bank borrowings	(1,974)	(1,286)
– net notional interest on pension scheme liability	(311)	(238)
– other	(41)	(30)
	<b>(2,326)</b>	(1,554)
Interest receivable	<b>1,309</b>	573
	<b>(1,017)</b>	(981)

## 9. Tax on (loss)/profit on ordinary activities

	2005 £000	2004 Restated £000
Tax on (loss)/profit on ordinary activities		
United Kingdom corporation tax on the (losses)/profits of the year	(6)	607
Overseas taxation	<b>2,059</b>	2,574
Total current tax	<b>2,053</b>	3,181
Adjustments to tax charged in previous years		
United Kingdom corporation tax	<b>(1,609)</b>	106
Overseas taxation	<b>(355)</b>	(410)
Current tax charge for the period	<b>89</b>	2,877
Deferred taxation on the pension liability movement	<b>1,520</b>	488
Deferred taxation	<b>(39)</b>	545
Total taxation expense for the year	<b>1,570</b>	3,910
<b>Factors affecting the tax charge in the current period</b>		
(Loss)/profit on ordinary activities before tax	<b>(26,563)</b>	11,037
Current tax at 30% (2004: 30%)	<b>(7,969)</b>	3,311
Effects of		
Permanently disallowable expenses relating to exceptional items	<b>9,513</b>	(133)
Utilisation of tax losses	<b>(106)</b>	(231)
Related depreciation less/(greater) than capital allowances	<b>332</b>	(289)
Current tax losses not utilised	<b>60</b>	275
Higher tax rates on overseas earnings	<b>146</b>	357
Other short-term timing differences	<b>77</b>	(109)
Adjustments to tax charged in previous years	<b>(1,964)</b>	(304)
Current tax charge for the period	<b>89</b>	2,877

The undistributed profits of overseas subsidiaries are liable to taxation if distributed as dividends subject to set off in respect of double tax relief. There is no current intention to distribute profits of overseas subsidiaries where this would give rise to a significant additional tax charge in the United Kingdom.

## Notes to the Accounts continued

### 10. Dividends

	2005 £000	2004 £000
On non-equity shares		
First, second and third cumulative preference stock		
Half year to 31 May 2005	11	11
Half year to 30 November 2005	12	12
	<b>23</b>	23
On equity shares		
Ordinary shares		
Interim dividend of 1.70p (2004: 1.60p)	1,704	1,592
Final dividend of 3.00p (2004: 2.90p)	3,006	2,894
	<b>4,733</b>	4,509

The interim dividend of 1.70p was not declared until 21 November 2005 and was paid on 16 December 2005. The declaration and payment of the interim dividend was delayed whilst the Company awaited confirmation from the Court of Session in Scotland of the cancellation of the Company's share premium account and the cancellation of its paid up capital to the extent of 25p per issued ordinary share and the reduction of the nominal value of its ordinary shares from 50p to 25p.

### 11. Earnings per ordinary share

	2005 £000	2004 Restated £000
(Losses)/profits are calculated as follows		
(Loss)/profit after tax	(28,133)	7,127
Preference dividend	(23)	(23)
Minority interest	(292)	(109)
<b>(Losses)/profits attributable to equity shareholders</b>	<b>(28,448)</b>	6,995
Exceptional operating items	1,200	423
Tax relief thereon	(360)	(134)
Exceptional non-operating items	36,622	–
Tax relief thereon	80	–
<b>Earnings before exceptional items</b>	<b>9,094</b>	7,284
Amortisation of goodwill	1,310	583
Tax relief thereon	(174)	(174)
<b>Earnings before amortisation of goodwill and exceptional items</b>	<b>10,230</b>	7,693
<b>Basic (losses)/earnings per share</b>	<b>(28.49p)</b>	7.03p
<b>Earnings per share before exceptional items and amortisation of goodwill</b>	<b>10.25p</b>	7.73p
<b>Fully diluted (losses)/earnings per share</b>	<b>(27.87p)</b>	6.88p

An additional calculation of earnings per share before exceptional items and amortisation of goodwill is given in order to provide a more meaningful comparison of underlying performance.

All earnings per share calculations are based on the weighted average number of ordinary shares in issue during the year of 99,840,631 (2004: 99,526,756). The calculation of fully diluted earnings per share is based on the ordinary shares in issue plus the dilutive effect of the Low & Bonar 1997 Share Save Scheme and the 2003 Low & Bonar Long Term Incentive Plan awards (to the extent to which the performance criteria had been achieved at 30 November 2005) was 2,228,285 (2004: 2,133,080). The number of shares included in the calculation of fully diluted earnings per share was 102,068,916 (2004: 101,659,836). Other awards under the 2003 Long Term Incentive Plan are non-dilutive as the shares concerned are treated on a contingent basis in accordance with the treatment prescribed by FRS 14.

## 12. Intangible fixed assets

	Goodwill £000
Cost	
At 1 December 2004	11,804
Additions (note 24)	82
Acquisition of subsidiary (note 24)	21,447
<b>At 30 November 2005</b>	<b>33,333</b>
Amortisation	
At 1 December 2004	980
Charge for the year	1,310
<b>At 30 November 2005</b>	<b>2,290</b>
Net book value	
<b>At 30 November 2005</b>	<b>31,043</b>
At 1 December 2004	10,824

## 13. Tangible fixed assets

	<b>Group</b>			<b>Company</b>		
	Land and Buildings £000	Plant and Machinery £000	Total £000	Land and Buildings £000	Plant and Machinery £000	Total £000
Cost						
At 1 December 2004	40,054	114,670	154,724	281	226	507
Exchange adjustment	(22)	(486)	(508)	–	–	–
Acquisition of subsidiaries	1,895	2,721	4,616	–	–	–
Additions	365	7,582	7,947	4	26	30
Disposals	(46)	(5,065)	(5,111)	(46)	(20)	(66)
Disposals of subsidiaries	(20,236)	(38,138)	(58,374)	–	–	–
Transfers between categories	17	(17)	–	–	–	–
<b>At 30 November 2005</b>	<b>22,027</b>	<b>81,267</b>	<b>103,294</b>	<b>239</b>	<b>232</b>	<b>471</b>
Depreciation						
At 1 December 2004	13,190	83,111	96,301	173	146	319
Exchange adjustment	(111)	(534)	(645)	–	–	–
Acquisition of subsidiaries	257	1,729	1,986	–	–	–
Disposals	(46)	(4,566)	(4,612)	(46)	(20)	(66)
Disposals of subsidiaries	(5,589)	(29,809)	(35,398)	–	–	–
Charge for the year	876	5,968	6,844	63	34	97
<b>At 30 November 2005</b>	<b>8,577</b>	<b>55,899</b>	<b>64,476</b>	<b>190</b>	<b>160</b>	<b>350</b>
Net book value						
<b>At 30 November 2005</b>	<b>13,450</b>	<b>25,368</b>	<b>38,818</b>	<b>49</b>	<b>72</b>	<b>121</b>
At 1 December 2004	26,864	31,559	58,423	108	80	188

## Notes to the Accounts continued

### 13. Tangible fixed assets continued

Gross book value of land and buildings for the Group includes land £1,931,000 (2004: £2,756,000) which is not depreciated.

Gross book value of fixed assets for the Group includes assets in the course of construction £2,119,000 (2004: £1,528,000) which have not been depreciated.

The aggregate amount of contracts for capital expenditure not provided in the accounts was £643,000 (2004: £1,436,000).

The net book value of land and buildings comprises

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Freehold	10,722	25,683	–	–
Long leasehold	1,097	924	–	–
Short leasehold	1,631	257	49	108
	<b>13,450</b>	26,864	<b>49</b>	108

### 14. Fixed asset investments

	Cost £000	Provisions £000	Net £000
<b>Company investment in subsidiaries</b>			
At 1 December 2004	97,519	(4,397)	93,122
Additions	8,837	–	8,837
Impairment	–	(22,483)	(22,483)
<b>At 30 November 2005</b>	<b>106,356</b>	<b>(26,880)</b>	<b>79,476</b>

Particulars of the Group's interest in the issued share capital of principal subsidiaries are shown on page 57.

The impairment is a consequence of the disposal of the Plastics Division.

### 15. Stocks

	2005 £000	2004 £000
Raw materials	6,316	9,091
Work in progress	3,755	3,767
Finished goods	19,457	20,823
	<b>29,528</b>	33,681

### 16. Debtors

Group	2005	2005	2005	2004	2004	2004
	Due within one year £000	Due after one year £000	Total £000	Restated Due within one year £000	Restated Due after one year £000	Restated Total £000
Trade debtors	34,452	–	34,452	40,581	–	40,581
Other debtors and prepayments	4,793	–	4,793	3,656	15	3,671
Overseas taxation recoverable	–	–	–	368	–	368
	<b>39,245</b>	–	<b>39,245</b>	44,605	15	44,620
<b>Company</b>						
Amounts owed by subsidiaries	36,028	–	36,028	81,029	–	81,029
Other debtors and prepayments	2,225	930	3,155	402	–	402
UK taxation recoverable	2,919	–	2,919	2,154	–	2,154
	<b>41,172</b>	<b>930</b>	<b>42,102</b>	83,585	–	83,585

## 17. Creditors

Group	2005 Due within one year £000	2005 Due after one year £000	2004 Due within one year £000	2004 Due after one year £000
Bank loans and overdrafts (note 18)	1,903	–	6,097	7,888
Trade creditors	23,149	–	28,465	–
Bills of exchange payable	966	–	798	–
Social security and other taxes	3,029	–	4,939	–
UK taxation payable	315	–	1,819	–
Overseas taxation payable	1,381	–	2,038	–
Other creditors and accruals	23,888	3,195	14,373	2,885
Proposed dividends	4,733	–	2,906	–
Finance leases	621	893	170	84
Other creditors	58,082	4,088	55,508	2,969
Total creditors	59,985	4,088	61,605	10,857
Due within five years		4,088		10,599
Due after five years		–		258
		4,088		10,857

Included within Group other creditors and accruals due within one year are government grants of £45,000 (2004: £51,000), an environmental accrual of £280,000 (note 30) (2004: £367,000) and an accrual for onerous leases of £272,000 (2004: £292,000).

Included within Group other creditors and accruals due after one year are government grants of £229,000 (2004: £225,000).

A total of £204,000 of borrowings due within one year was secured (2004: £nil) over the assets of Xirion.

A total of £1,878,000 included in amounts due after one year relates to deferred consideration.

Company	2005 Due within one year £000	2005 Due after one year £000	2004 Due within one year £000	2004 Due after one year £000
Bank loans and overdrafts (note 18)	9,786	–	24,558	6,750
Amounts owed to subsidiaries	10,553	33,582	38,979	–
Social security and other taxes	75	–	59	–
UK taxation payable	–	–	2,238	–
Other creditors and accruals	6,757	1,878	1,682	–
Proposed dividends	4,733	–	2,906	–
Other creditors	22,118	35,460	45,864	–
Total creditors	31,904	35,460	70,422	6,750
Due within five years		35,460		6,750

## Notes to the Accounts continued

### 18. Financial instruments

The information in this note should be read in conjunction with page 11 of the Financial Review which discusses the management of foreign exchange and interest rate risk. Short term debtors and creditors have been excluded from the disclosures in this note. Information on preference shares is shown separately at (ix).

#### (i) Financial liabilities

The profile of the Group financial liabilities was as follows

	<b>Borrowings</b>			
	<b>2005</b>	<b>2005</b>	2004	2004
	<b>Under</b>	<b>Over</b>	Under	Over
	<b>one year</b>	<b>one year</b>	one year	one year
	<b>£000</b>	<b>£000</b>	£000	£000
Currency				
Sterling	1	–	3,696	6,750
Euro	1,526	–	1,531	1,138
US and Canadian dollars	376	–	832	–
Other	–	–	38	–
	<b>1,903</b>	<b>–</b>	6,097	7,888

#### (ii) Financial assets

The Group held the following financial assets

	<b>2005</b>	2004
	<b>£000</b>	£000
Interest bearing		
Sterling cash	692	236
Sterling deposits	7,871	4,800
Euro cash	4,714	18,659
US dollar cash	601	4,279
Other currencies cash	855	964
	<b>14,733</b>	28,938

Cash and deposits are placed on short term maturities to a maximum of three months at relevant market rates for the maturity concerned.

#### (iii) Interest rate profile

All borrowings, with the exception of euro denominated borrowings of £1,115,000 (2004: £2,655,000) with a weighted average interest rate of 5.80% and a weighted average period of 0.3 years (2004: 1.43 years), are at floating rates, with interest rates set between one day and three months by reference to the benchmark rate for the relevant currency, being LIBOR in sterling and its equivalent for other currencies.

#### (iv) Maturity of borrowings

	<b>2005</b>	2004
	<b>£000</b>	£000
Within one year	1,903	6,097
Between one and two years	–	4,138
Between two and five years	–	3,750
	<b>1,903</b>	13,985

## 18. Financial instruments continued

### (v) Borrowing facilities

The Group has various undrawn committed borrowing facilities. The undrawn facilities available in respect of which all conditions precedent had been met were as follows

	2005 £000	2004 £000
Expiring within one year	–	–
Expiring after two years	67,500	15,000
	<b>67,500</b>	<b>15,000</b>

### (vi) Currency risk

After taking account of forward foreign exchange contracts, the net transactional currency exposure on monetary assets and liabilities was not material.

### (vii) Fair values

The fair values of the financial assets and liabilities are not materially different from their book values.

### (viii) Hedges

As explained in the Financial Review on page 11, the Group's policy is to partially hedge overseas assets including unamortised goodwill. The exchange movement on the net assets of overseas subsidiaries less the movement on the related hedging instruments is recognised through the exchange reserve each year.

The Group utilises forward foreign exchange contracts to fix exchange rates on certain transactions in foreign currencies. These relate to normal trading transactions and the unrecognised gain or loss on the hedges at the balance sheet date is not material.

### (ix) Preference shares

	2005 Book value £000	2005 Fair value £000	2004 Book value £000	2004 Fair value £000
6% first cumulative preference stock	100	98	100	70
6% second cumulative preference stock	100	92	100	98
5.5% third cumulative preference stock	200	160	200	156

The preference shares do not have set maturity dates. Fair values are based on the prices quoted in the London Stock Exchange Daily Official List.

## 19. Provision for liabilities and charges

Group	Accelerated capital allowances £000	Other timing differences £000	Total £000
Deferred taxation			
At 1 December 2004	5,290	(121)	5,169
Exchange adjustment	(750)	54	(696)
Transfer to profit and loss account	44	(83)	(39)
<b>At 30 November 2005</b>	<b>4,584</b>	<b>(150)</b>	<b>4,434</b>

As at the year end unprovided deferred tax assets principally relating to prior year losses are £1,886,000 (2004: £7,787,000). Any short term timing differences in the Company are offset by losses carried forward.

Deferred taxation (within the net pension scheme deficit)

	£000
At 1 December 2004	9,451
Movement in the year	
Charged to profit and loss account	(1,520)
In statement of recognised gains and losses	448
<b>At 30 November 2005</b>	<b>8,379</b>

## Notes to the Accounts continued

### 20. Share capital

	2005 £000	2004 £000
<b>Authorised</b>		
100,000 (2004: 100,000) 6% first cumulative preference stock of £1.00 each	100	100
100,000 (2004: 100,000) 6% second cumulative preference stock of £1.00 each	100	100
200,000 (2004: 200,000) 5.5% third cumulative preference stock of £1.00 each	200	200
132,000,000 (2004: 132,000,000) ordinary shares of 25p each (2004: 50p each)	33,000	66,000
	<b>33,400</b>	66,400
<b>Allotted, called up and fully paid</b>		
Non-equity		
6% first cumulative preference stock of £1.00 each	100	100
6% second cumulative preference stock of £1.00 each	100	100
5.5% third cumulative preference stock of £1.00 each	200	200
	<b>400</b>	400
Equity:		
100,231,400 (2004: 99,781,652) ordinary shares of 25p each (2004: 50p each)	25,058	49,891
	<b>25,458</b>	50,291

Preference shares have priority over ordinary shares on a winding up of the Company. Provided that preference dividends remain paid in accordance with the Company's Articles of Association, preference shares do not carry voting rights.

During the year shareholders voted for a resolution to reorganise the capital of the Company. This reorganisation has been approved by the Court of Session in Scotland. The capital reorganisation was required as the adoption of FRS 17 and the impairment of the Company's investment in Bonar International Holdings Ltd triggered by the sale of the Plastics Division extinguished the Company's distributable reserves, and without such a capital reorganisation the Company would have been unable to pay a dividend to the shareholders.

The reorganisation involved the balance on the share premium account being transferred to the profit and loss account and the 50p ordinary shares of the Company being cancelled and 25p ordinary shares being allotted to shareholders in their place. The credit of £25,058,000 created was also transferred to the profit and loss account.

During the year, 346,813 ordinary shares of 50p each were allotted in respect of options exercised under the Low & Bonar 1997 Sharesave Scheme. A further 102,935 ordinary shares were issued to the Low & Bonar 1995 Employee Share Ownership Plan Trust at nominal value and used to satisfy an award maturing under the rules of the Low & Bonar 2003 Long-Term Incentive Plan (the "2003 LTIP").

#### Share Option Schemes

- The Low & Bonar Savings Related Share Option Scheme  
No options were granted during the year under review. There will be no further options granted under the Scheme.  
No options were exercised during the year under review. All 3,787 outstanding options lapsed during the year.
- The Low & Bonar 1997 Share Save Scheme  
346,813 options were exercised during the year. 151,678 options lapsed during the year.  
No options were granted during the year.  
The following options were outstanding at 30 November 2005

	Number of shares	Acquisition price p per share	Dates exercisable
	1,251,404	51 to 278	2005 to 2010

## 20. Share capital continued

### 3. The Low & Bonar 1994 (No. 1) Management Share Option Scheme

No options were granted during the year under review. There will be no further options granted under the scheme.

No options were exercised or lapsed during the year.

The following options were outstanding at 30 November 2005

Number of shares	Acquisition price p per share	Dates exercisable
6,900	429	2005 to 2007

### 4. The Low & Bonar 1994 (No. 2) Management Share Option Scheme

No options were granted during the year under review. There will be no further options granted under this scheme.

No options were exercised or lapsed during the year.

The following options were outstanding at 30 November 2005.

Number of shares	Acquisition price p per share	Dates exercisable
61,100	318.5 to 429	2005 to 2008

### 5. The Low & Bonar 2003 Long-Term Incentive Plan (the '2003 LTIP')

Awards held by executives at 30 November 2005 under the 2003 LTIP were

Date of award	Shares awarded	Award price p per share	Shares vested during the year	Shares lapsed	Award shares outstanding on 30/11/05	Date at which releasable
28/03/2003	1,544,024	53.64	–	(203,607)	1,340,417	28/03/2006
11/07/2003	357,101	53.64	(51,467)	(254,166)	51,468	11/07/2006
01/03/2004	155,707	83.49	–	–	155,707	01/03/2007
09/07/2004	87,316	108.80	–	–	87,316	09/07/2007
05/09/2005	483,220	111.75	–	–	483,220	05/09/2008

The vesting of the above awards in part or in full are subject to the fulfilment of the performance conditions set at the time the awards were made. Full details of the performance conditions are provided in the Directors' Report on Remuneration on page 22.

#### Executive Share Options

No share options were granted to senior executives during the year under the rules of the 2003 LTIP. 72,000 options lapsed during the year.

Number of shares	Acquisition price p per share	Dates exercisable
945,833	112.5	2007 to 2014

#### Phantom Share Options

No options were granted or lapsed during the year.

Number of shares	Acquisition price p per share	Dates exercisable
300,706	112.5	2007 to 2014

The vesting of these options are subject to the fulfilment of the performance conditions set at the time the awards were made.

Phantom share option holders have the opportunity to receive a cash payment equivalent to the gain on the exercise of options that would have been made by a share option holder choosing to exercise an equivalent number of options granted at the same time and price.

## Notes to the Accounts continued

### 21. Reserves

	Restated Group £000	Restated Company £000
<b>Share premium account</b>		
At 1 December 2004	60,453	60,453
Shares issued	31	31
Transferred to profit and loss account upon capital reorganisation	(60,484)	(60,484)
<b>At 30 November 2005</b>	<b>-</b>	<b>-</b>
<b>Exchange reserve</b>		
At 1 December 2004	(7,542)	-
Adjustment on translation of currency loans to fund overseas investments	1,192	-
Adjustment on translation of net assets and results of overseas subsidiaries	(166)	-
<b>At 30 November 2005</b>	<b>(6,516)</b>	<b>-</b>
<b>Profit and loss account</b>		
At 1 December 2004	770	1,081
Prior year adjustment, adoption of FRS 17	(29,318)	(29,318)
Restated at 1 December 2004	(28,548)	(28,237)
LTIP credit transferred to share scheme reserve	(567)	(567)
Loss for the year	(33,158)	(37,258)
Goodwill written back	20,637	-
Transfer from share premium account upon capital reorganisation	60,484	60,484
Transfer from ordinary share capital upon capital reorganisation	25,058	25,058
Changes in FRS 17 actuarial assumptions	(1,664)	(1,497)
Movement in FRS 17 deferred tax credit	499	448
<b>At 30 November 2005</b>	<b>42,741</b>	<b>18,431</b>
The goodwill written off directly to reserves in prior years was £23,456,000, (2004: £44,093,000).		
<b>Share scheme reserve</b>		
<b>Share based payments</b>		
At 1 December 2004	-	-
LTIP credit transferred from profit and loss account	567	567
Awards under LTIP	(34)	(34)
Charge for the year	413	413
<b>At 30 November 2005</b>	<b>946</b>	<b>946</b>
<b>Low &amp; Bonar 1995 Employees Share Ownership Plan Trust</b>		
At 1 December 2004	-	-
Purchases of shares	(261)	(261)
Awards under LTIP	26	26
Other share awards	24	24
<b>At 30 November 2005</b>	<b>(211)</b>	<b>(211)</b>
<b>Net reserve at 30 November 2005</b>	<b>735</b>	<b>735</b>
Net reserve at 1 December 2004	-	-

## 21. Reserves continued

	2005 Company £000	2004 Restated Company £000
<b>Company reconciliation of shareholders' funds</b>		
Shareholders' funds at start of year as previously reported	111,825	116,326
Prior year adjustment	(29,318)	(28,056)
Shareholders' funds at start of year restated	82,507	88,270
(Loss)/profit for the financial year	(31,005)	12
Dividends	(4,733)	(4,509)
Result for the year	(35,738)	(4,497)
Other recognised gains and losses	(2,568)	(1,566)
Share based payment	168	117
Share capital issued	255	183
Net decrease in shareholders' funds	(37,883)	(5,763)
Shareholders' funds at start of year	82,507	88,270
Shareholders' funds at end of year	44,624	82,507

## 22. Minority interest

	2005 £000	2004 £000
At 1 December	2,149	–
Arising upon acquisition	–	2,130
Share of profit after tax	292	109
Exchange adjustment	332	(90)
<b>At 30 November</b>	<b>2,773</b>	<b>2,149</b>

## 23. Net cash inflow from operating activities

	2005 £000	2004 Restated £000
Operating profit	11,076	12,018
Depreciation	6,844	7,553
Amortisation	1,310	583
Write back of government grants	(65)	(73)
Increase in stocks	(1,965)	(2,230)
Increase in debtors	(4,357)	(1,425)
(Decrease)/increase in creditors	(263)	6,729
Pensions contributions in excess of operating charge	(5,370)	(1,865)
Credit in respect of Long Term Incentive Plan	413	117
Net cash inflow from operating activities	7,623	21,407

## Notes to the Accounts continued

### 24. Acquisitions

The Group acquired LCM Construction Products Ltd. (trading as ADFIL), on 7 December 2004, for a maximum cash consideration including costs of up to £13,401,000, including the repayment of external debt of £4,885,000. The Group acquired cash balances of £204,000. Acquisition costs were £630,000. Of the total consideration, £231,000 was deferred until June 2005, a further £1,860,000 is payable in equal tranches over the period 2005 to 2007, and a further £930,000 is payable contingent upon future operating performance over the period 2005 to 2007. £310,000 of the potential contingent consideration related to the performance for the year ended 31 December 2005. The performance condition has not been achieved, and the deferred and contingent consideration has been reduced accordingly. The residual contingent consideration amounting to £620,000 relates to performance over the period from 1 December 2005 until 30 November 2007. The previous shareholders of LCM Construction Products Ltd. were Lloyds TSB Development Capital and the existing management team who have remained with the business.

	Book value £000	Fair value adjustments £000	Fair value £000
Fixed assets	471	(190)	281
Stock	411	(30)	381
Debtors	1,750	–	1,750
Creditors	(1,545)	(100)	(1,645)
Net assets acquired	1,087	(320)	767
Cash consideration paid in period including costs			5,930
Less cash acquired with business			(204)
Add external debt repaid on acquisition			4,885
Net cash outflow during period			10,611
Included within deferred consideration at 30 November 2005			2,480
Total consideration payable			13,091
Goodwill arising on consolidation			12,324

The fair value adjustments to fixed assets and stock represent changes to ensure consistency with Group accounting policies; that to creditors represents the inclusion of additional liabilities relating to a lease.

Purchased goodwill is capitalised on the balance sheet and amortised through the profit and loss account over its estimated useful life. The Directors consider that the estimated useful life of the goodwill arising on the acquisition of the business is 20 years.

The Group acquired Xirion NV, on 31 August 2005, for a cash consideration including costs of £9.3m.

	Book value £000	Fair value adjustments £000	Fair value £000
Fixed assets	2,343	–	2,343
Stock	738	–	738
Debtors	566	–	566
Creditors	(1,878)	(304)	(2,182)
Taxation	(68)	–	(68)
Deferred taxation	(2)	–	(2)
Finance leases	(1,464)	–	(1,464)
Net assets acquired	235	(304)	(69)
Cash consideration paid in period including costs			9,297
Less cash acquired with business			(838)
Add borrowings acquired with business			595
Net cash outflow during period			9,054
Goodwill arising on consolidation			9,123

The fair value adjustment relates to the inclusion of additional liabilities for VAT and supplier rebates.

Purchased goodwill is capitalised on the balance sheet and amortised through the profit and loss account over its estimated useful life. The Directors consider that the estimated useful life of the goodwill arising on the acquisition of the business is 20 years.

On 19 October 2005, the Group acquired certain assets and intellectual property from Threshold Floorings Limited (in Administration) for a total consideration, including costs, of £108,000. The purchased goodwill amounted to £82,000.

## 25. Disposal of subsidiaries

On 8 September 2005 the Group disposed of its entire Plastics Division for a cash consideration (net of costs) of £23,718,000.

The principal businesses disposed of were all wholly owned and comprised the following statutory entities

Name of Company	Country of incorporation
Bonar Corporation	USA
Bonar Plastics Corporation	Canada
Bonar Plastics GmbH	Germany
Bonar Plastics BV	Netherlands
Bonar Plastics A/S	Denmark
Bonar Plastics Polska Sp. z o.o	Poland
Bonar Plastics France SAS	France
Bonar Plastics Nord SAS	France
Bonar Plastics Ouest SAS	France
Bonar Plastics Est SAS	France
Bonar Plastics SA	Spain

Disposals during the year had a net cash flow of £1,217,000 from operating activities, paid £251,000 net interest and utilised £1,307,000 for capital expenditure up to their dates of disposal.

The businesses were purchased by Promens hf. ("Promens"), an Icelandic company. Promens is a related party of Atorka hf. ("Atorka") who directly and via another related party, AFL Fjarfestingarfelag, own a substantial proportion of the equity of Low & Bonar PLC. At the time of sale Atorka and AFL Fjarfestingarfelag owned 21,132,500 shares amounting to 21.2% of Low & Bonar's issued share capital. Further details about this relationship can be found in note 32.

The assets disposed of were as follows	£000
Fixed assets	22,976
Stock	7,216
Debtors	13,406
Cash	1,681
Creditors	(11,143)
Tax	43
Deferred Tax	(655)
Intra group borrowings	(2,027)
	31,497
Proceeds of disposal less costs	23,718
Loss on disposal before goodwill written back	(7,779)
Goodwill written back	(20,637)
Loss on disposal	(28,416)
Proceeds of disposal less costs	23,718
Less amounts included in other debtors at 30 November 2005	(1,418)
Add amounts included in other creditors at 30 November 2005	116
Intra group borrowings repaid	2,027
Cash disposed of	(1,681)
Net cash inflow	22,762

## Notes to the Accounts continued

### 26. Reconciliation and analysis of net cash

	Cash £000	Short term bank deposits £000	Borrowings under one year £000	Borrowings over one year £000	Net cash/(debt) £000
At 1 December 2003	20,862	7,000	(5,049)	(12,427)	10,386
Cash flow	3,506	(2,200)	(1,034)	4,500	4,772
Exchange rate fluctuations	(230)	–	(14)	39	(205)
At 1 December 2004	24,138	4,800	(6,097)	(7,888)	14,953
Cash flow	(17,262)	3,071	4,182	7,872	(2,137)
Exchange rate fluctuations	(14)	–	12	16	14
<b>At 30 November 2005</b>	<b>6,862</b>	<b>7,871</b>	<b>(1,903)</b>	<b>–</b>	<b>12,830</b>
				<b>2005</b>	2004
				<b>Cash</b>	Cash
				<b>£000</b>	£000
Per balance sheet				<b>14,733</b>	28,938
Short term bank deposits included				<b>(7,871)</b>	(4,800)
As above				<b>6,862</b>	24,138

### 27. Pensions

The Group operates a number of pension schemes in the UK and overseas. These are of defined benefit and defined contribution in nature. The assets of all the schemes are held separately from those of the Group in independently administered funds.

The UK defined benefit scheme was independently valued by a qualified actuary at 31 March 2005. The main assumption in carrying out the valuation was for investment returns to exceed earnings increases by 1.5%. At 31 March 2005 the total market value of assets in the UK scheme was £114 million. The overall level of funding was 77%. The profit and loss account charge for the year of the UK pension scheme was £1.1m (2004 (restated): £1.1m).

The Company has agreed with the Trustees of the UK defined benefit scheme a schedule of contributions to fund a deficit under the Minimum Funding Requirement. Under this agreement the Company has made payments of £5,380,000 during the year. A further £6,000,000 was paid in December 2005. The Company has agreed to pay further contributions of £3,000,000 per year in the years ending 30 November 2007 and 30 November 2008.

A defined benefit scheme exists in Belgium. The assets, which are held separately from the Company, total £1.4m at 30 November 2005 and the latest actuarial update at this date show the scheme to be fully funded. A defined benefit scheme exists in our Dutch business. It is a member of an industry-wide scheme and it is not possible to separately identify assets and liabilities and it is accounted for on a contribution paid basis.

The French business provides for a lump sum payment payable on retirement of £117,000 at 30 November 2005.

## 28. Pensions — adoption of FRS 17

During the year the Board adopted fully FRS 17 'Retirement Benefits' with effect from 1 December 2004.

The Actuary has undertaken a valuation of the assets and liabilities of the scheme at 30 November 2005. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method. The present value of scheme liabilities has been arrived at by projecting the results of the last full valuation as at 31 March 2005 forward to 30 November 2005.

The following assumptions were made in reaching the valuation at 30 November

	<b>2005</b> %	2004 %	2003 %
Rate of increase in salaries	<b>4.25</b>	4.25	4.00
Rate of increase of pensions in payment	<b>2.75</b>	2.75	2.50
Discount rate	<b>5.00</b>	5.30	5.50
Inflation assumption	<b>2.75</b>	2.75	2.50

The fair value of the scheme assets and the present value of the scheme liabilities at 30 November 2005, 30 November 2004, and 30 November 2003 were as follows

	%	<b>2005</b> £000	%	2004 £000	%	2003 £000
Equities	<b>7.20</b>	<b>88,131</b>	7.50	83,577	8.00	78,490
Bonds	<b>4.75</b>	<b>39,116</b>	5.00	22,812	5.25	19,990
Others	<b>4.50</b>	<b>1,556</b>	4.50	1,930	5.00	2,343
Total market value of assets		<b>128,803</b>		108,319		100,823
Actuarial value of liability		<b>(156,734)</b>		(139,822)		(132,720)
Deficit in the scheme		<b>(27,931)</b>		(31,503)		(31,897)
Related deferred tax asset		<b>8,379</b>		9,451		9,569
Net pension liability		<b>(19,552)</b>		(22,052)		(22,328)

The following entries have been made in the financial statements.

### a) Analysis of amount charged to operating profit

	<b>2005</b> £000	2004 £000
Current service cost	<b>761</b>	830

### b) Analysis of the amount credited/(charged) to net interest payable

	<b>2005</b> £000	2004 £000
Expected return on pension scheme assets	<b>6,966</b>	6,891
Interest on pension liabilities	<b>(7,277)</b>	(7,129)
Net return	<b>(311)</b>	(238)

### c) Movement in deficit during the year

	<b>2005</b> £000	2004 £000
Deficit in scheme at beginning of year	<b>(31,503)</b>	(31,897)
Movement in year		
Current service cost	<b>(761)</b>	(830)
Contributions	<b>6,131</b>	2,695
Net return on assets	<b>(311)</b>	(238)
Actuarial loss	<b>(1,487)</b>	(1,233)
Deficit in scheme at the end of the year	<b>(27,931)</b>	(31,503)

## Notes to the Accounts continued

### 28. Pensions — adoption of FRS 17 continued

#### d) Analysis of amount recognised in the Consolidated Statement of Total Recognised Gains and Losses

	2005 £000	2004 £000
Actual return less expected return on assets	13,178	4,946
Experience gains and losses on liabilities	692	1,501
Changes in assumptions	(15,357)	(7,680)
Actuarial loss recognised	(1,487)	(1,233)

#### e) History of experience gains and losses

	2005 £000	2004 £000	2003 £000	2002 £000
Difference between the actual and expected return on assets	13,178	4,946	2,737	(38,522)
– as a % of scheme assets	10.2%	4.6%	2.7%	39.8%
Experience gains/(losses) on liabilities	692	1,501	(373)	13,247
– as a % of liabilities	0.4%	1.1%	0.3%	10.8%
Total amount recognised in Statement of Total Recognised Gains and Losses	(1,497)	(1,233)	(5,427)	(21,830)
– as a % of liabilities	1.0%	0.9%	4.1%	17.8%

#### f) Prior year adjustments

	2004 £000
Operating profit adjustment	327
Interest	(238)
Adjustments for the year	89
Taxation	(488)
Profit previously reported	(399)
Revised profit for the financial year	7,417
	7,018
Other recognised gains and losses previously reported	(1,609)
Actuarial loss	(1,233)
Movement on deferred tax asset relating to pension scheme	370
Other recognised gains and losses	(2,472)
Net pension scheme deficit	(22,328)
Pension prepayment	(5,728)
Increase in net pension liability and reduction in equity shareholders' funds as at 1 December 2003	(28,056)

### 29. Commitments under operating leases

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
<b>Plant</b>				
Amount payable next year where lease expires				
Within one year	<b>949</b>	594	<b>5</b>	5
Within two to five years	<b>1,972</b>	937	<b>10</b>	10
	<b>2,921</b>	1,531	<b>15</b>	15
<b>Buildings</b>				
Amount payable next year where lease expires				
Within one year	<b>496</b>	527	–	–
Within two to five years	<b>967</b>	829	–	80
After five years	<b>194</b>	–	–	–
	<b>1,657</b>	1,356	–	80

### 30. Contingent liabilities

At the time of disposing of the Group's North American packaging operations in March 2000, the Company entered into an Environmental Agreement with the purchasers of the business. The Environmental Agreement contains provisions regarding the remediation of known environmental contamination in the vicinity of one of the facilities which was sold in Burlington, Ontario. Under the terms of the Agreement, the Company has to contribute to ongoing remediation expenses and claims to a maximum of C\$64 million. The Environmental Agreement expires in September 2006 unless claims lodged prior to this date remain outstanding. At 30 November 2005, an accrual of £278,000 (2004: £367,000) remains in the Group's balance sheet for remediation costs. In 2003 a claim which was known at the time of disposal was settled for a cost of £208,000.

In addition, Low & Bonar PLC has guaranteed certain obligations of its subsidiaries arising in the normal course of trade.

### 31. Rates of exchange

	2005		2004	
	Average to the £	Year end to the £	Average to the £	Year end to the £
The rates of exchange used were as follows				
Canadian dollar	<b>2.22</b>	<b>2.02</b>	2.37	2.27
US dollar	<b>1.84</b>	<b>1.73</b>	1.82	1.91
Danish krone	<b>10.86</b>	<b>10.94</b>	10.94	10.69
Euro	<b>1.46</b>	<b>1.47</b>	1.47	1.44
Polish zloty	<b>5.90</b>	<b>5.73</b>	6.72	6.02
Chinese renminbi	<b>15.07</b>	<b>13.84</b>	15.19	15.83

## Notes to the Accounts continued

### 32. Related Parties

The Group had the following transactions with Related Parties during the year.

Yihua Corporation, which owns 49.9% of the equity of the Company's subsidiary undertaking Yihua Bonar Yarns & Fabrics Co. Ltd.

The Group owns the remaining 50.1%, and may, at its option, and by licensing its proprietary technology to the business, increase its investment to 60%.

Yihua Corporation is a subsidiary of Sinopec. Transactions with Sinopec subsidiaries in the year ended 30 November 2005 comprised purchases of £2.5m and sales of £41,000. At 30 November 2005, the net creditor was £41,000.

Atorka Group hf. ("Atorka"), which together with its subsidiaries controls more than 3% of the Company's issued share capital.

A conditional agreement made on 19 July 2005 with Promens hf. and Promens Germany GmbH, subsidiaries of Atorka, to sell the Plastics Division of the Group. The disposal was completed on 8 September 2005. Further details of this transaction may be found in note 25 (Disposals) on page 51 of this report. The Group made a loss on disposal of £28.4m. Of the aggregate consideration, £1,418,000 was outstanding as at 30 November 2005, and this has been paid subsequently. A further amount, £133,352, is held in an escrow account, pending the receipt of a tax clearance in Canada. This clearance is expected to be received in the first half of 2006.

An agreement with Atorka was entered into on 13 May 2005 that until 31 August 2005 neither Atorka nor any of its Group undertakings would acquire, directly or indirectly, any shares in the Company without the consent of the Low & Bonar PLC Board. The Company and Atorka also agreed that until 1 July 2006, neither Atorka nor any of its group undertakings would (i) announce or make any sort of takeover offer for any shares of Low & Bonar or (ii) enter into any agreement as a result of which any person may become obliged to make any such offer without the consent of the Board. The Company notified Atorka on 12 September 2005 that it had decided to release Atorka from its obligations under the standstill agreement entered into in connection with the disposal of Plastics with immediate effect.