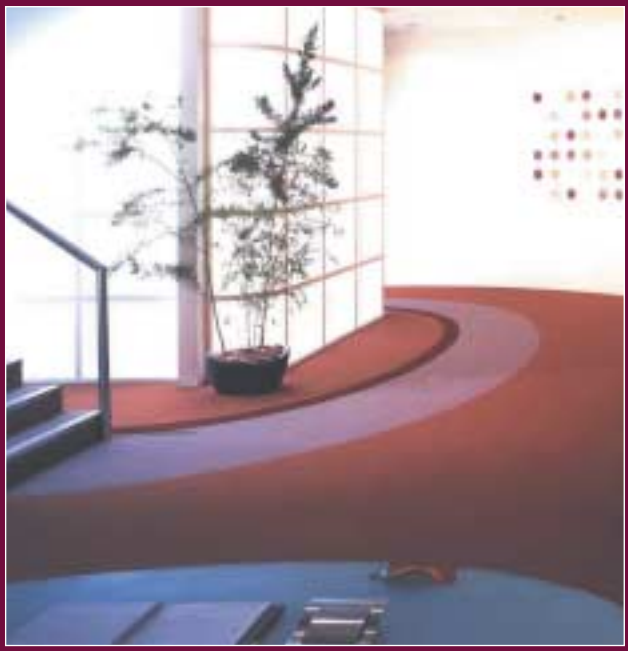
Low & Bonar



Interim report and accounts 2003

Group structure

Specialist Materials – *Flooring*

Our business

Flooring solutions from entrance to exit provided by a global sales and marketing organisation and six manufacturing sites in Europe.

Our products

- **Flotex**
  Unique performance by design
- **Coral**
  The flexible clean-off system
- **Chocflex**
  The heavy-duty acoustic vinyl
- **Nuway/Tuftiguard**
  The engineered entrance system
- **Gaskell Carpet Tiles**
  High performance carpet tiles
- **Modulus Flooring Systems**
  Design leading carpet tiles

Our markets

- Healthcare
- Office
- Education
- Transport
- Public buildings
- Leisure and hospitality
- Retail
- Residential housing

Specialist Materials – *Yarns & Fabrics*

Our business

Extrusion, non-woven and weaving technology are the core of the polypropylene yarns and fabrics business, which serves specialised markets from three production facilities in Europe.

Our products

- Fibrillated yarns
- Texturised yarns
- Grass yarns
- Woven fabrics
- Non-woven fabrics

Our markets

- **Yarns**
  Carpet industry
  Industrial textiles
  Synthetic grass
- **Technical fabrics**
  Horticultural
  Civil engineering
  Carpet industry
  Industrial applications

Plastics

Our business

With 12 manufacturing sites in eight countries and substantial design experience, we are well placed to meet our customers' needs for both standard products and custom designed solutions through rotational moulding of plastic.

Our products

- IBCs, hoppers and pallets
- Containers, tanks and drums
- Fuel tanks and vehicle body components
- Marine products
- Furniture
- Water treatment products

Our markets

- Chemicals
- Automotive
- Environmental
- Point of sale
- Food processing

Interim statement

Chairman's statement

As we stated at the time of the Annual General Meeting, our markets remained extremely demanding and raw material prices had increased substantially in the second quarter.

Despite this backdrop our businesses achieved a good performance with pre exceptional operating profit improving to £5.2m from £3.9m including a three month contribution from the acquired carpet tile business. To provide additional information, the segmental analysis below has been expanded to isolate the central costs which include the past service cost element of the UK pension scheme.

Exceptional costs of £0.3m were incurred in our Floors operation because of a reduction in headcount in the first half. In addition, integration costs of £0.3m have been incurred, as predicted, as a consequence of the Gaskell Carpet Tile Division acquisition. Profit before tax was £4.3m (2002: £3.8m) after an interest expense of £0.3m (2002: £0.2m). Earnings per share were 2.87p (2002: 2.44p) with a tax rate of 34% (2002: 35%). On a pre exceptional basis, earnings per share were 3.28p (2002: 2.44p).

Despite the acquisition of the carpet tile business a positive Group net cash position has been maintained, albeit at a much reduced level of £0.9m (2002: £9.4m). This has been possible due to a strong performance in managing working capital and will continue to be a prime focus for the Group.

The directors have declared an interim ordinary dividend of 1.5p per share in line with the new dividend policy announced in February 2003 (2002: 2.5p) which will be paid on 2 October 2003 to ordinary shareholders on the register on 5 September 2003.

Duncan Clegg Chairman

Chief Executive's review of operations

Flooring Excluding the acquisition of the carpet tile business, operating profit grew to £4.0m for the half year (2002: £3.5m) despite a decline in sales to £25.8m (2002: £27.7m). The revenue shortfall was caused by the decrease in sales of a third party product in the US, subdued demand in the German and Benelux markets and a SARS-driven slowdown in Hong Kong and Southern China.

Action was taken by the new Managing Director, Mark Sefton, to reduce many cost elements. This drove operating margins up significantly from 12.7% in the first half of 2002 to 15.5% in the first half of 2003. The focus now is to build on this progress through a much more determined and structured approach to organic growth. Our capabilities in this area are being further strengthened by selective recruitment.

The newly acquired carpet tile business has been satisfactorily integrated into Bonar Floors. Both its own level of trading and the post merger integration work have met expectations fully and we

Interim statement *continued*

are beginning to see selected examples of large customers purchasing our full range of products as a "one-stop-shop" offering.

Yarns & Fabrics Yarns & Fabrics continued its improvement in sales despite demanding markets in much of Europe, particularly Germany and Benelux. Sales of £23.4m compared to £20.2m last year. Sales in our Dundee yarns business benefited from the continued growth in artificial sports surfaces and the carpet backing yarns business held up relatively well. The Belgian business had a more mixed experience with non-woven fabrics and groundcovers progressing but a number of other sectors experiencing very tough market conditions, especially in Spain and Benelux.

Nonetheless the volume growth achieved across Yarns & Fabrics, together with selective cost improvements, meant that we were able to grow profitability above the 2002 half year levels despite a sharp upward movement in polypropylene prices in the second quarter. In aggregate operating profit grew to £1.1m (2002: £1.0m) for the first half year. Our expectation for the second half is of lower material prices and hence scope for higher margins.

Plastics Plastics moved further into profit driven by good sales growth across the division and much improved cost control in our French operation. Sales were £33.0m (2002: £31.2m) with an operating profit of £0.9m (2002: £0.2m). A number of new product introductions have helped us grow in virtually every site and our North American business saw some indications of limited market recovery towards the end of the first half.

Cost reduction measures, allied to better operational control, ensured the French operation moved ahead and tighter financial controls were instigated across all the Plastics businesses. Our Danish business had a disappointing first half and we have targeted the improvements necessary to ensure a better performance going forward. Progress across Plastics is being consolidated by strengthening the management teams in both Europe and North America.

Outlook

It remains difficult to predict the market conditions for the balance of the year. Broadly our markets mirror the overall pattern of national GDP with the US and the UK proving most resilient and Germany least so. I am pleased, however, that a number of management actions, as contained in the January strategic review, aimed at growing our market shares and improving our cost base are starting to improve operating margins. I anticipate this improvement being sustained through the second half and also expect some benefit from lower raw material prices. Consequently, I remain cautiously confident that we can continue this improved performance in the second half.

Paul Forman Group Chief Executive
10 July 2003

Unaudited consolidated profit and loss account

for the half year ended 31 May 2003

	Notes	**Six months ended 31 May 2003 £000**	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000
Turnover				
Existing		**82,168**	79,081	162,637
Acquisitions		**7,201**	–	–
		89,369	79,081	162,637
Operating profit before amortisation and exceptional costs				
Existing		**4,229**	3,933	7,722
Acquisitions		**1,087**	–	–
Amortisation				
Acquisitions		**(138)**	–	–
Exceptional operating costs	5			
Existing				
– restructuring costs		**(308)**	–	(1,348)
Acquisitions				
– integration costs		**(274)**	–	–
Operating profit				
Existing		**3,921**	3,933	6,374
Acquisitions		**675**	–	–
		4,596	3,933	6,374
Exceptional non-operating costs	5			
Loss on disposal of business		**–**	–	(1,683)
Net interest payable		**(254)**	(175)	(215)
Profit on ordinary activities before taxation		**4,342**	3,758	4,476
Taxation		**(1,475)**	(1,315)	(2,383)
Profit on ordinary activities after taxation		**2,867**	2,443	2,093
Dividends:				
– preference		**(11)**	(11)	(23)
– ordinary		**(1,492)**	(2,487)	(3,979)
Transferred to/(from) reserves		**1,364**	(55)	(1,909)
Ordinary dividend per share		**1.50p**	2.50p	4.00p
Earnings per share before exceptional items		**3.28p**	2.44p	4.88p
Basic and diluted earnings per share		**2.87p**	2.44p	2.08p

Summary unaudited Group balance sheet

at 31 May 2003

	31 May 2003 £000	31 May 2002 £000	30 Nov 2002 £000
Fixed assets			
Tangible assets	**62,923**	60,072	57,455
Goodwill	**10,071**	–	–
	72,994	60,072	57,455
Working capital			
Stocks	**34,898**	26,377	24,087
Debtors	**51,864**	45,403	42,436
Creditors	**(47,112)**	(35,856)	(35,992)
	39,650	35,924	30,531
Net cash	**883**	9,410	18,231
Tax, dividends and other liabilities	**(9,929)**	(7,939)	(9,278)
	103,598	97,467	96,939
Capital and reserves			
Share capital	**50,137**	50,137	50,137
Reserves	**53,461**	47,330	46,802
	103,598	97,467	96,939

Summary unaudited consolidated cash flow statement

for the half year ended 31 May 2003

	Notes	**Six months ended 31 May 2003 £000**	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000
Net cash inflow/(outflow) from operating activities	6	**4,223**	(344)	11,132
Net interest paid		**(219)**	(473)	(524)
Non-equity dividends paid		**(11)**	(11)	(23)
Returns on investment and servicing of finance		**(230)**	(484)	(547)
Tax (paid)/recovered		**(921)**	(50)	1,193
Purchase of tangible fixed assets		**(2,068)**	(2,953)	(5,632)
Sale of tangible fixed assets		**443**	2,841	2,840
Receipt of government grants		**140**	–	–
Capital expenditure		**(1,485)**	(112)	(2,792)
Acquisitions and disposals	7	**(18,318)**	–	333
Equity dividends paid		**(1,492)**	(3,482)	(5,970)
Net cash (outflow)/inflow before management of liquid resources and financing		**(18,223)**	(4,472)	3,349
Management of liquid resources		**4,000**	22,900	30,000
Financing		**(7,426)**	(24,223)	(31,686)
(Decrease)/increase in cash		**(21,649)**	(5,795)	1,663

Reconciliation of net cash			
Opening net cash	**18,231**	14,858	14,858
Exchange	**875**	(976)	24
Net cash flow	**(18,223)**	(4,472)	3,349
Closing net cash	**883**	9,410	18,231

Consolidated statement of total recognised gains and losses

for the half year ended 31 May 2003

	Six months ended 31 May 2003 £000	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000
Profit for the period	**2,867**	2,443	2,093
Currency translation differences on overseas net investments and related borrowings	**5,295**	(642)	(470)
Total recognised gains and losses for the financial period	**8,162**	1,801	1,623
Prior year adjustment for implementation of FRS 19 "Deferred Tax"	**–**	(3,833)	(3,595)
Total recognised gains and losses since last annual report	**8,162**	(2,032)	(1,972)

Reconciliation of movements in consolidated shareholders' funds

for the half year ended 31 May 2003

	Six months ended 31 May 2003 £000	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000
Profit for the period	**2,867**	2,443	2,093
Dividends	**(1,503)**	(2,498)	(4,002)
Result for the period	**1,364**	(55)	(1,909)
Other recognised gains and losses relating to the period	**5,295**	(642)	(470)
Goodwill transferred to profit and loss account on disposal of business	**–**	–	1,154
Net increase/(decrease) in shareholders' funds	**6,659**	(697)	(1,225)
Shareholders' funds at start	**96,939**	98,164	98,164
Shareholders' funds at end	**103,598**	97,467	96,939

Segmental information

for the half year ended 31 May 2003

	Turnover			Profit		
	Six months ended 31 May 2003 £000	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000	**Six months ended 31 May 2003 £000**	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000
Classes of business						
Floors						
– existing businesses	**25,820**	27,713	56,072	**4,006**	3,523	7,553
– acquisitions	**7,201**	–	–	**949**	–	–
Yarns & Fabrics	**23,393**	20,194	44,342	**1,093**	978	2,630
Total Specialist Materials	**56,414**	47,907	100,414	**6,048**	4,501	10,183
Plastics						
– North European	**11,580**	10,073	21,721	**419**	678	836
– South European	**9,904**	10,390	18,728	**(138)**	(910)	(1,948)
– North American	**11,471**	10,711	21,774	**645**	395	489
Total Plastics	**32,955**	31,174	62,223	**926**	163	(623)
	89,369	79,081	162,637	**6,974**	4,664	9,560
Central costs				**(1,796)**	(731)	(1,838)
Exceptional operating costs				**(582)**	–	(1,348)
Operating profit				**4,596**	3,933	6,374
Exceptional non-operating costs				**–**	–	(1,683)
Net interest payable				**(254)**	(175)	(215)
Profit on ordinary activities before taxation				**4,342**	3,758	4,476
Geographical segments						
United Kingdom	**25,703**	17,306	37,125	**4,439**	3,320	7,328
Continental Europe	**52,195**	49,939	102,092	**1,890**	1,434	2,267
North America	**11,471**	11,836	23,420	**645**	(90)	(35)
	89,369	79,081	162,637	**6,974**	4,664	9,560
Central costs				**(1,796)**	(731)	(1,838)
Exceptional operating costs				**(582)**	–	(1,348)
Operating profit				**4,596**	3,933	6,374
Exceptional non-operating costs				**–**	–	(1,683)
Net interest payable				**(254)**	(175)	(215)
Profit on ordinary activities before taxation				**4,342**	3,758	4,476

Notes on interim report 2003

1 This interim report has been prepared on the basis of the accounting policies set out in the annual report for the year ended 30 November 2002, with the addition of the accounting policy for purchased goodwill which is set out in note 7.

2 This interim report was approved by the Board of Directors on 10 July 2003.

3 Taxation on the operating profit after interest before exceptional items has been provided at a rate of 34% for the six months ended 31 May 2003 (2002: 35%) which is the estimated rate of tax for the full year.

4 Earnings per share are based on the weighted average of ordinary shares in issue during the half year of 99,474,690 (2002: 99,474,690). There is no dilutive effect of unexercised share options.

5 Exceptional items

	Six months ended 31 May 2003 £000	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000
Operating			
Floors European restructuring	**(308)**	–	–
Carpet tiles integration costs	**(274)**	–	–
Senior group management changes	**–**	–	(812)
Floors US closure costs	**–**	–	(536)
	(582)	–	(1,348)
Non-operating			
Loss on disposal of business	**–**	–	(1,683)

6 Net cash inflow/(outflow) from operating activities

	Six months ended 31 May 2003 £000	Six months ended 31 May 2002 £000	Year ended 30 Nov 2002 £000
Operating profit	**4,596**	3,933	6,374
Depreciation and amortisation	**4,053**	3,986	7,738
Write back of government grants	**(42)**	(30)	(68)
Increase in working capital	**(4,384)**	(8,233)	(2,912)
	4,223	(344)	11,132

7 The Group acquired the trade and assets of the carpet tile division of Gaskell plc on 21 February 2003. The directors consider that the fair values are not materially different from book values at the date of acquisition.

	Book value and fair value £000
Fixed assets	4,476
Stock	6,056
Debtors	3,877
Creditors	(5,329)
Net assets acquired	9,080
Purchase consideration, including costs	19,289
Goodwill arising on acquisition	10,209
Analysis of purchase consideration including costs:	
Cash paid during period	18,318
Included within creditors at 31 May 2003	971
	19,289

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 carpet tiles business is 20 years.

8 The comparative figures for the financial year ended 30 November 2002 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

Designed and produced by C&FD. Printed in England by Empress Litho Ltd.

Low & Bonar PLC
Mimet House
5A Praed Street
London W2 1NJ

Tel 020 7298 6820
Fax 020 7298 6821