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Low & Bonar

Interim Report 2005

✧ Floors

Flooring solutions to a global market.

Targeting markets such as healthcare, office, education, transport, public buildings, leisure and retail. Our Floors division makes a number of brand name solutions such as Flotex, Coral, Chocflex, Nuway and Tessera.

⌘ Yarns & Fabrics

Extrusion, non-woven and weaving technology are the core of the polypropylene yarns and fabrics business.

Our Yarns & Fabrics division serves specialised markets such as the carpet industry, industrial textiles, synthetic grass, the horticultural market, civil engineering and industrial applications — all on a global scale.

★ Plastics

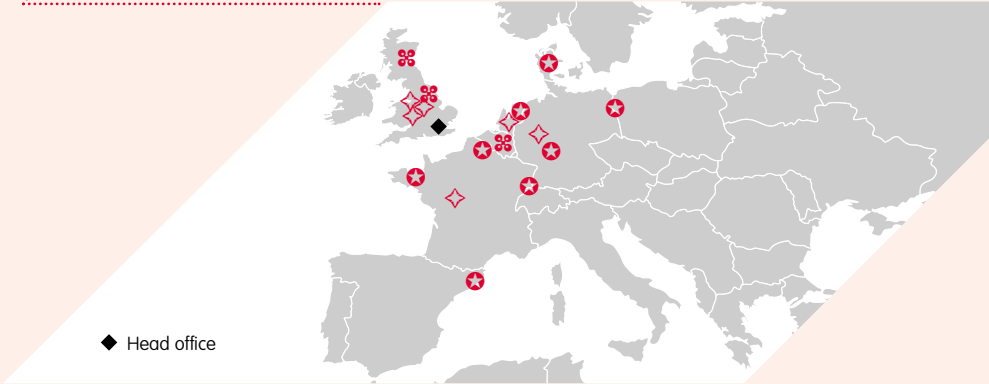
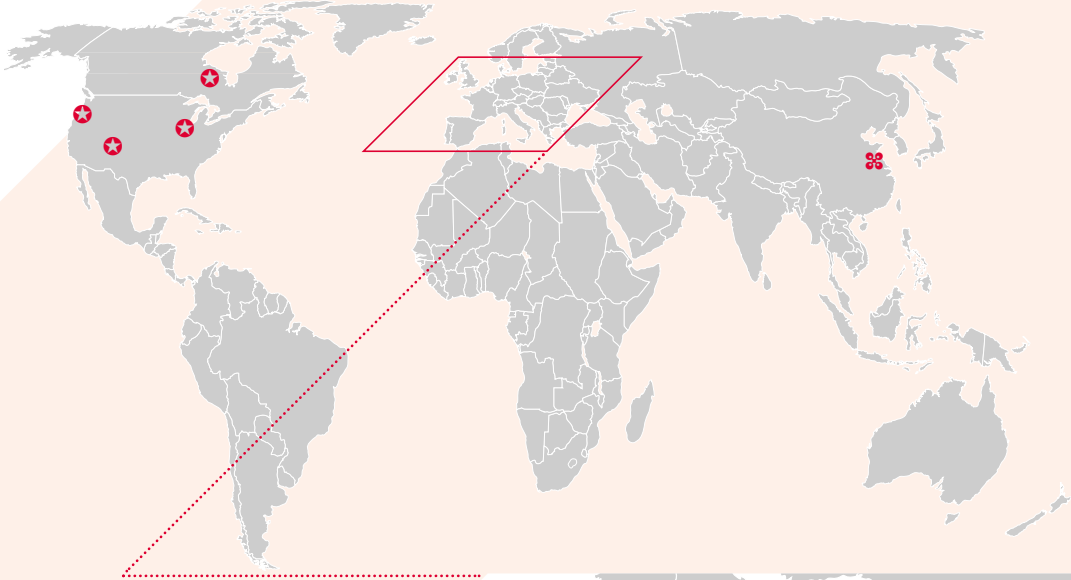
A global provider of customised design and manufacturing services which also markets unique material handling products.

The design and manufacture of hoppers and pallets, containers, tanks and drums, fuel tanks and vehicle body components, marine products, furniture and water treatment products. We operate in global niche markets including chemical, automotive, environmental, point of sale and food processing.



A Global Group in a Global Market

Providing specialist materials, products and services to strategically attractive niche markets.



Chairman's statement

The first half of 2005 has seen us deliver good revenue growth, both organically and by acquisition, and has seen the successful integration of our two acquisitions made in 2004. The positive impact of this revenue growth was more than offset by three foreseen factors which we highlighted at the preliminary results in February and at the AGM in April. These factors are over £4m of increased raw material costs, £0.7m of additional operating costs relating to new product introductions in our Floors division and also upgrades of our manufacturing capability in the Yarns & Fabrics division.

Accordingly, Group pre-exceptional operating profit moved from £6.2m to £4.2m for the 6 months ended 31 May 2005 with Bonar Floors particularly impacted by the costs of the required reinvigoration of our product ranges. Yarns & Fabrics and Plastics produced commendable performances in holding and marginally increasing operating profit despite the very significant adverse raw material movements. On 19 July 2005 the Board announced the proposed disposal of Bonar Plastics to Promens hf, a subsidiary of Atorka Group hf, for a consideration of £25.75m in cash, subject to adjustments on completion. The disposal of Plastics gives us enhanced strategic focus and additional funds for building our two core divisions. The recent acquisition of Xirion is a clear illustration of our commitment to this strategy.

Turnover was £110.5m (2004: £94.7m). Profit before tax was £3.9m (2004: £5.7m) after an interest expense of £0.5m (2004: £0.3m). Earnings per share were 2.61p (2004: 3.80p) with a tax rate of 29.8% (2004: 33.5%). As at 31 May 2005 the Group had net debt of £7.9m (2004: net cash £5.8m). The acquisition of ADFIL in December 2004 represents the major movement in overall net debt against the net cash position at the same time last year.

Dividend Policy

Following the disposal of Plastics, the Board has announced a proposal to restructure our share capital. Provided that this becomes effective and in the absence of unforeseen circumstances, the Directors intend to declare and pay an interim dividend of 1.7p per ordinary share which is expected to be paid to shareholders before the year end date of 30 November 2005. The Directors' recommendation regarding the final dividend will be made in the ordinary course of business and will be considered at the company's Annual General Meeting in 2006.

Duncan Clegg Chairman
19 July 2005

Chief Executive's Review of Operations

Floors

Divisional sales grew 16% to £44.6m, from £38.4m. The majority of the increase was a result of the full impact of the MoD contract although other areas did experience some growth.

As outlined above, a number of foreseen additional expenditures linked to business growth were incurred. These factors, combined with selected market pricing pressures and a £1m increase in raw material costs, meant operating profit was reduced to £3.5m from £5.6m in 2004. As a result of these additional costs we announced in June 2005 a cost restructuring programme that will deliver over £1m in savings per annum. This will help the Division to return to its full margin potential.

To ensure we continue to drive organic growth, we have undertaken range launches in four of our major ranges in June, namely Flotex, Chocflex, Tessera and Coral. The range changes are major events for the Division, with this level of activity being unprecedented, and have negatively impacted manufacturing efficiencies in the first half as they increased our short term operational complexity significantly. The stock build needed to cope with the range changes has also seen an anticipated working capital outflow which is expected to improve in the second half.

We have seen continuing subdued demand in our markets, particularly in continental Europe, and in some cases this was allied to price pressure driven by competition. We are confident that the cost actions being taken, the return to more stable operational processes and the reception of our new ranges, especially Flotex, in the second half, will build the margins to the historic levels we have enjoyed in recent years.

Yarns & Fabrics

Divisional sales grew 27% to £33.5m, from £26.3m. Operating profits were £2.2m (2004: £2.3m) despite a negative year on year impact of over £2m arising from the increase in raw material prices.

Our Belgian business, as indicated previously, undertook a major investment in its non-woven capacity which reduced available capacity in the first half and hence temporarily reduced profit. This upgrade programme went well and is improving both product cost and quality. Our Dundee operation continues to enjoy significant growth. The outlook for this product remains very positive globally and we are actively exploring the development of related market segments. We have introduced part of the grass manufacturing process into our Chinese operation, Yihua Bonar, and expect to scale up to full manufacturing capability in 2006. Overall trading in our Chinese operation remains in line with our expectations. The relationship with Sinopec through this venture is proving a positive asset for us as we seek to expand further in China. The acquisition of ADFIL in December 2004 has contributed positively to the Division's operating results in the first half. The recently announced acquisition of Xirion will further strengthen our position as a global leader in the very attractive artificial grass yarn market.

Interim Statement

Plastics

The continued focus on operational improvement and selective investment to support growth saw the Division increase sales to £32.3m from £30.0m in 2004. Operating profits grew to £0.6m from £0.4m. As with Yarns & Fabrics, the outcome was all the more pleasing as c.£1m of raw material increases had to be absorbed in the period. This period's results continued the encouraging trend of sustained improvement since 2003 and we believe that this improvement in financial performance has been important in achieving a successful sale. We also believe that the change of ownership will prove beneficial for the Division itself as it will be more central to its new Group.

Outlook

Our recent actions on cost reduction and product introductions, particularly in Floors, linked to the recent reductions in raw material costs give us confidence for an improved second half. Our Floors business has started the second half well and we are confident that both it and the Yarns & Fabrics businesses will move ahead in the second half. We are not anticipating market conditions to change materially, nor a further easing of raw material prices, but we believe our underlying business strength and market share positions will continue to improve.

Furthermore, the successful disposal of our Plastics division will ensure greater management focus and hence continued progress in our remaining two Divisions. We will continue to pursue our acquisition programme to take advantage of the strategic benefits from increased scale in these markets. Our acquisition of Xirion reflects this strategy and is an extremely positive development for the Group.

Paul Forman Group Chief Executive
19 July 2005

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Unaudited Consolidated Profit and Loss Account

for the half year ended 31 May 2005

	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000
Turnover			
Continuing	106,698	94,679	201,651
Acquisitions	3,786	—	—
	110,484	94,679	201,651
Operating profit before amortisation of goodwill and exceptional costs			
Continuing	4,220	6,474	12,697
Acquisitions	586	—	—
Amortisation of goodwill	4,806	6,474	12,697
Continuing	(297)	(251)	(583)
Acquisitions	(311)	—	—
Operating profit before exceptional costs	4,198	6,223	12,114
Exceptional operating costs (note 5)			
Continuing	—	(175)	(423)
Operating profit			
Continuing	3,923	6,048	11,691
Acquisitions	275	—	—
	4,198	6,048	11,691
Net interest payable	(495)	(348)	(743)
Exceptional non operating gain (note 5)			
Gain on sale of fixed assets	179	—	—
Profit on ordinary activities before taxation	3,882	5,700	10,948
Taxation	(1,155)	(1,912)	(3,422)
Profit on ordinary activities after taxation	2,727	3,788	7,526
Minority interest	(109)	—	(109)
	2,618	3,788	7,417
Dividends:			
Preference	(11)	(11)	(23)
Ordinary	—	(1,592)	(4,486)
Transfer to reserves	2,607	2,185	2,908
Dividend per ordinary share	—	1.60p	4.50p
Earnings per ordinary share before amortisation of goodwill and exceptional items	3.26p	4.09p	8.13p
Earnings per ordinary share before exceptional items	2.73p	3.91p	7.72p
Basic earnings per ordinary share	2.61p	3.80p	7.43p
Fully diluted earnings per ordinary share	2.56p	3.77p	7.27p

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Summary Unaudited Group Balance Sheet

at 31 May 2005

	31/5/05 £000	31/5/04 £000	30/11/04 £000
Fixed assets			
Intangible assets	22,778	9,595	10,824
Tangible assets	58,937	55,471	58,423
	81,715	65,066	69,247
Working capital			
Stocks	37,806	34,277	33,681
Debtors	57,144	49,880	51,518
Creditors	(47,594)	(44,553)	(51,714)
	47,356	39,604	33,485
Net (debt)/cash	(7,915)	5,796	14,953
Tax, dividends and other liabilities	(12,208)	(9,818)	(11,564)
	108,948	100,648	106,121
Capital and reserves			
Share capital	50,352	50,139	50,291
Reserves	56,230	50,509	53,681
	106,582	100,648	103,972
Minority interest — equity	2,366	—	2,149
	108,948	100,648	106,121

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Summary Unaudited Consolidated Cash Flow Statement

for the half year ended 31 May 2005

	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000
Net cash (outflow)/inflow from operating activities (note 6)	(4,364)	4,020	21,407
Net interest paid	(622)	(529)	(830)
Non equity dividends paid	(11)	(11)	(23)
Returns on investment and servicing of finance	(633)	(540)	(853)
Tax paid	(512)	(2,106)	(3,699)
Purchase of tangible fixed assets	(4,446)	(3,019)	(6,871)
Sale of tangible fixed assets	413	518	614
Receipt of government grants	60	—	—
Capital expenditure	(3,973)	(2,501)	(6,257)
Acquisitions and disposals (note 7)	(10,373)	24	(1,731)
Equity dividends paid	(2,895)	(2,687)	(4,278)
Net cash (outflow)/inflow before management of liquid resources and financing	(22,750)	(3,790)	4,589
Management of liquid resources			
Decrease in short term deposits	4,571	2,272	2,200
Financing			
Proceeds of share issues	63	3	183
Purchase of own shares	(83)	—	—
Additional/(repayment of) loans	8,450	(2,226)	(3,466)
(Decrease)/increase in cash	(9,749)	(3,741)	3,506
Reconciliation of net cash			
Opening net cash	14,953	10,386	10,386
Exchange	(98)	(803)	(205)
Net cash (outflow)/inflow	(22,770)	(3,787)	4,772
Closing net (debt)/cash	(7,915)	5,796	14,953

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Consolidated Statement of Total Recognised Gains and Losses

for the half year ended 31 May 2005

	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000
Profit for the period	2,618	3,788	7,417
Currency translation differences on overseas net investments and related borrowings	(107)	(4,055)	(1,609)
Total recognised gains and losses for the financial period	2,511	(267)	5,808

Reconciliation of Movements in Consolidated Shareholders' Funds

for the half year ended 31 May 2005

	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000
Profit for the period	2,618	3,788	7,417
Dividends	(11)	(1,603)	(4,509)
Result for period	2,607	2,185	2,908
Ordinary shares issued	63	3	183
Purchase of own shares	(57)	—	—
Other recognised gains and losses relating to the period	(107)	(4,055)	(1,609)
Long-Term Incentive Plan	104	142	117
Net increase/(decrease) in shareholders' funds	2,610	(1,725)	1,599
Opening shareholders' funds	103,972	102,373	102,373
Closing shareholders' funds	106,582	100,648	103,972

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Segmental Information

for the half year ended 31 May 2005

	Turnover			Profit		
	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000
Classes of business						
Floors	44,644	38,409	83,132	3,481	5,630	9,699
Yarns & Fabrics						
— continuing businesses	29,730	26,310	59,290	1,881	2,295	5,334
— acquisitions	3,786	—	—	275	—	—
Total Yarns & Fabrics	33,516	26,310	59,290	2,156	2,295	5,334
Plastics	32,324	29,960	59,229	599	403	1,246
	110,484	94,679	201,651	6,236	8,328	16,279
Central costs				(2,038)	(2,105)	(4,165)
Pre exceptional operating profit				4,198	6,223	12,114
Exceptional operating costs				—	(175)	(423)
Operating profit				4,198	6,048	11,691
Net interest payable				(495)	(348)	(743)
Exceptional non operating gain				179	—	—
Profit on ordinary activities before taxation				3,882	5,700	10,948
Geographical segments						
United Kingdom	40,410	31,654	69,438	3,500	4,239	7,603
Continental Europe	57,373	52,655	110,233	2,368	4,034	7,925
North America	10,492	10,370	20,360	141	55	483
Asia	2,209	—	1,620	227	—	268
	110,484	94,679	201,651	6,236	8,328	16,279
Central costs				(2,038)	(2,105)	(4,165)
Pre exceptional operating profit				4,198	6,223	12,114
Exceptional operating costs				—	(175)	(423)
Operating profit				4,198	6,048	11,691
Net interest payable				(495)	(348)	(743)
Exceptional non operating gain				179	—	—
Profit on ordinary activities before taxation				3,882	5,700	10,948

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Notes on Interim Report 2005

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 2004.
2. This interim report was approved by the Board of Directors on 19 July 2005.
3. Taxation on the operating profit after interest before exceptional items has been provided at a rate of 29.8% for the six months ended 31 May 2005 (2004: 33.5%) which is the estimated rate of tax for the full year. The reduction is driven by the resolution of an ongoing enquiry in France in favour of the Group.
4. Basic and pre exceptional earnings per share are based on the weighted average of ordinary shares in issue during the half year of 99,783,636 (2004: 99,476,439). The calculation of fully diluted earnings per share is based on the weighted average number of ordinary shares in issue plus the dilutive effect of outstanding share options and the 2003 Low & Bonar Long-Term Incentive Plan (the '2003 LTIP') awards (to the extent to which performance criteria had been achieved at 31 May 2005) being 2,227,123 (2004: 705,820) shares. The number of shares included in the calculation of fully diluted earnings per share was 102,010,759 (2004: 100,182,259). Other awards under the 2003 LTIP are non-dilutive as the shares concerned are accounted for on a contingent basis in accordance with the treatment prescribed by FR 14.

5. Exceptional items

Operating costs

	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000
Legal costs	—	(175)	(423)

During May 2004 the Group received notification from the European Commission of an investigation into alleged anti-competitive practices in the European industrial bag market, a market that the Group exited in 1997. The exceptional costs relate to the legal costs of the Group addressing this matter. The investigation is ongoing. A decision is anticipated to be made during 2005.

Non operating exceptional gain

During the six months ended 31 May 2005 the Yarns & Fabrics business has invested in new production capacity to replace and update existing assets. The sale of the redundant equipment resulted in a gain of £179,000 and is classified as an exceptional non operating gain.

6. Net cash (outflow)/inflow from operating activities

	Six months ended 31/5/05 £000	Six months ended 31/5/04 £000	Year ended 30/11/04 £000
Operating profit	4,198	6,048	11,691
Depreciation and amortisation	4,347	4,046	8,136
Write-back of government grants	(33)	(30)	(73)
(Increase)/decrease in working capital	(12,876)	(6,044)	1,653
Net cash (outflow)/inflow from operating activities	(4,364)	4,020	21,407

7. 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 £13,394,000, 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. 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	Provisional Fair Value Adjustments £000	Fair Value £000
Fixed assets	471	(190)	281
Stock	411	30	441
Debtors	1,750	—	1,750
Creditors	(1,967)	(100)	(2,067)
Net assets acquired	665	(260)	405
Cash consideration paid in period including costs			5,692
Less cash acquired with business			(204)
Add external debt repaid on acquisition			4,885
Net cash outflow during period			10,373
Included within tax dividends and other liabilities at 31 May 2005			3,021
Total consideration payable			13,394
Goodwill arising on acquisition			12,989

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Notes on Interim Report 2005

7. Acquisitions continued

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.

8. FRS 17 Disclosure

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. Under the accounting standard FRS 17 a deficit would be recorded on the Group balance sheet at both 31 May 2005 and 30 November 2004.

Included within Debtors at 31 May 2005 is a pension prepayment of £8,432,000 (30 November 2004: £7,266,000). Under FRS 17 at 31 May 2005 a net pension liability, after recognition of the related deferred tax asset, of £22,258,000 would have been recorded (30 November 2004: £22,052,000). This would have reduced net assets by £30,690,000 (30 November 2004: £29,318,000).

Had FRS 17 been used in the preparation of these accounts the reported profit for the period of £2,618,000 would have been unchanged (30 November 2004: profit for the year of £7,417,000 would have been increased by £242,000).

An actuarial valuation of the UK defined benefit scheme at 31 March 2005 is being carried out. The results are not yet available. The Directors are aware that recent mortality studies indicate significant improvements in life expectancy and that when the 31 March 2005 actuarial valuation is completed it is probable that this will increase the value of pension fund liabilities and the overall deficit on the pension scheme.

Further disclosure about the adoption of FRS 17 by the Group can be found in the annual report for the year ended 30 November 2004.

9. International Financial Reporting Standards (IFRS)

The Group has to apply IFRS in the year ending 30 November 2006. As stated in our 2004 annual report, the biggest impact will arise from inclusion of the pension fund deficit on the balance sheet and its impact on distributable reserves. We intend to report information under IFRS for the first time after our preliminary announcement for the year ending 30 November 2005.

10. The comparative figures for the financial year ended 30 November 2004 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.

Low & Bonar PLC

Mimet House 5A Praed Street London W2 1NJ
Tel 020 7298 6820 Fax 020 7298 6821