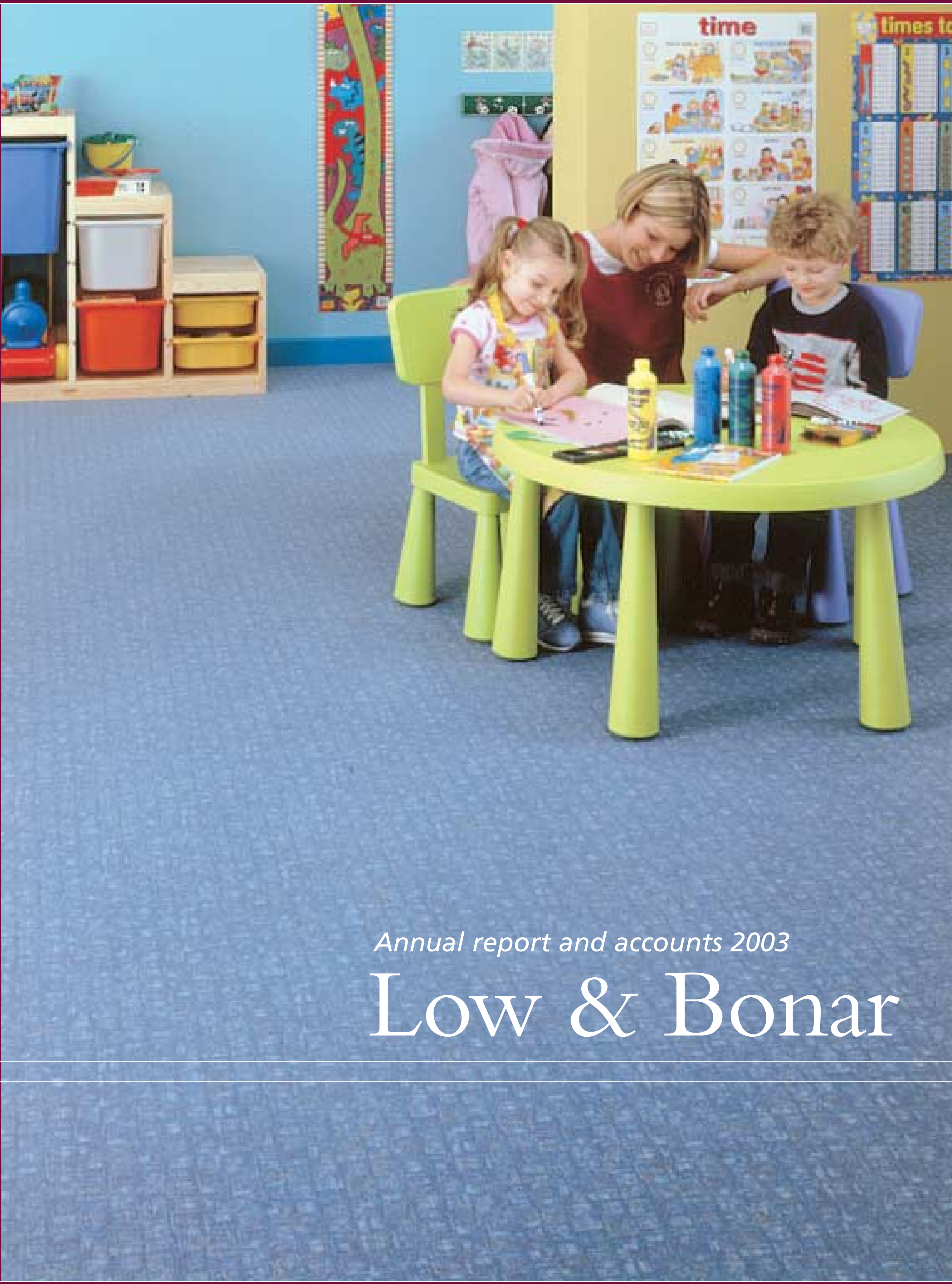


Annual report and accounts 2003

Low & Bonar

Front cover: *The unique durability, cleanability and appearance retention of Flotex, a textile floorcovering, is ideal in a nursery environment.*

Inside front cover: *An exhibition of the extensive range of floorcoverings manufactured by Bonar Floors Division.*

Contents

Low & Bonar

Our business is the high value-added design, conversion and finishing of polymers or other specialist materials into products for strategically attractive niche markets. By outstanding performance for our customers we will build strong international market share positions. We will maintain a focus on business-to-business selling and improved returns on capital. We will provide related services where they can generate value for us and our customers.

Highlights of the year

	2003	2002
Turnover	**£192m**	£163m
Profit before tax and exceptionals	**£10.1m**	£7.5m
Earnings per share before exceptionals	**6.69p**	4.88p
Dividend per share	**4.2p**	4.0p
Net cash	**£10.4m**	£18.2m

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*

Group Chief Executive's review of operations

In this review I would like to address three questions:

- What is Low & Bonar?
- How have we performed in 2003?
- What are we doing to sustain the progress made?

What is Low & Bonar?

On page 1 you will read a single paragraph that tries to summarise the common strands and common objectives of our Group. A few explanations of particular phrases from that description will hopefully give a more specific interpretation:

"High value-added design, conversion and finishing of polymers." We use as our base chemical polymers like polyethylene, polypropylene, nylon and PVC and then shape, colour, process and add componentry to them in ways that separate us from a bulk converter of such chemicals. That's why our chemical raw materials typically represent no more than 30% to 40% of sales value.

"Strategically attractive niche markets." Whether it be as one of a very few players producing yarns for artificial football pitches, shading screens for greenhouses, fuel and water tanks for trucks, or a flooring product that is soft yet acts like a resilient material, we will seek out markets that are differentiated and are capable of being uniquely valuable to our customers – and therefore of sustaining higher margins.

"A focus on business-to-business selling and improved returns on capital." We believe that selling to businesses, as opposed to consumers, requires a specific set of skills, gives us plenty of scope for growth and hence will be our chosen market type. We believe that by paying close attention to the efficiency with which we use our asset base, as well as the profit margins we make, we can ensure a strong cash flow and high quality of earnings for investors.

On pages 6 and 7 you will see more detailed illustrations of all three activities, our products and our customers, but it is, perhaps, helpful to see them in this overall context.

How have we performed in 2003?

Overall performance. I am pleased to be able to report that, for the first time in a number of years, both operating profit and earnings per share have shown growth year on year. Pre-exceptional operating profit has grown by 43% whilst underlying EPS has grown by 37%. What is equally encouraging is that all five segments (Floors, Yarns & Fabrics, North European Plastics, South European Plastics, North American Plastics) have progressed, albeit to differing degrees. A renewed emphasis on cash management – and hence return on capital – allied to the naturally cash-generative nature of our businesses has meant that we have a strong year-end net cash balance of £10.4m, despite spending £19.3m on the acquisition of Bonar Tiles and related costs. As a result of improved profit margins and cash management our operating return on capital has recovered from 9.3% in 2002 to 11.2% in 2003 and this performance measure is a key one in how we assess individual businesses and their value to shareholders.

At a slightly more detailed level, it is encouraging to report that, despite generally tough market conditions, sales went up year on year in local currency in four of our five segments and that the other (South European Plastics) was broadly level, with France consciously exiting unprofitable business. The trading profit growth at Divisional level enabled us to make investment centrally that will be important in sustaining our progress; expenditure was focused on enhanced financial controls, a central strategic, mergers and acquisitions capability, investment in several growth projects and a necessary increase in pension fund contributions of £0.7m. Operating exceptional costs dropped from £1.3m to £0.9m; these were incurred in the integration of the Gaskell Carpet Tile acquisition and in a restructuring of the Floors Division early in the year.

Operationally there were a number of highlights. The Bonar Tiles acquisition is performing to expectations and the 2004 cost synergies and the one-off costs in 2003 of obtaining them are as predicted at the time of the acquisition. Both Floors and Yarns & Fabrics improved profitability through carefully assessed cost reduction activities. As significantly, our French

By driving our Culture Goals in parallel, we will meet our aspirations for short, medium and long-term financial growth and create the capacity to expand by acquisition as well as organically.

Plastics business, which was heavily loss-making in 2002, is now running at a breakeven level. Our two other Plastics segments have also shown a positive approach to cost management in delivering profit growth, despite appreciable rises in materials costs. All of this has been made possible through a lot of very hard work across all our businesses and I am confident that the significant strengthening of our management group over the last 15 months will continue this trend. My thanks go to all involved for their dedication and determination. A more detailed review of performance in Floors, Yarns & Fabrics and Plastics follows on pages 8 to 13.

What are we doing to sustain the progress made?

In the business review undertaken in late 2002 at the time of my arrival as Group Chief Executive, there were two main conclusions. First, that Low & Bonar had many businesses that could provide a good strategic base on which to build and a good balance sheet underpinning them. Secondly, that our ability to make money from these strengths had been compromised by weaknesses in operational and financial disciplines. In short, there was clear potential both to recover and to grow organically and through acquisition.

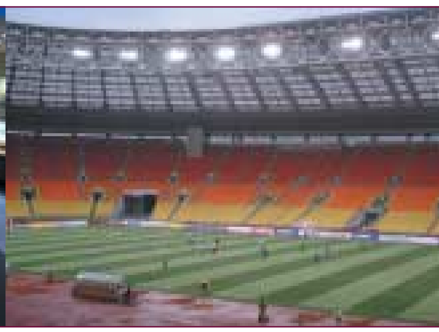
Achieving this is dependent on driving through what we call our "Culture Goals". These three are i) embedding a delivery culture, ii) creating a structured growth programme and iii) driving Group-wide management development. The first, Delivery, was initiated to address the historical issue of "overpromising and underdelivering". This year's results mark a clear step in the right direction but they are only a start. We are progressing this initiative through a strengthening of the central finance team, an increased investment in control systems, more comprehensive budgeting processes and monthly reporting disciplines, the continuation of the innovative LTIP and bonus scheme for senior executives and the addition of a Divisional Managing Director of Plastics. Now the Plastics businesses are moving forward it is considered appropriate to reduce the number of people in Plastics who report directly to me. Steve Good, who will be taking on the role of Divisional Managing Director of Plastics from 1 March 2004, has a background in accountancy as well as a wide range of general management roles with international specialty polymer producers.

The second culture goal, the Growth Pipeline, is a structured approach to organic growth, whether it be new products, geographic markets or ancillary services. Its intention is to identify opportunities that can benefit us in the short term or will take longer to have an impact but we are undertaking this in a more planned way than has been the case historically. We are complementing this by strengthening our selling and marketing personnel and investing resource in researching new markets and technologies. While such tools and the necessary cultural transformation will take time to embed, I believe that our sales growth in 2003 shows some early benefits and illustrates we can take share in our often fragmented marketplaces.

The third, Management Development, is based around the recruitment, retention and development of a consistently high quality management group. It is my belief that this is vital for the medium to long-term delivery of our growth aspirations as well as for our ability to absorb further acquisitions. In addition to a number of recruitments in the last 18 months, we have created a new role, Group Head of Management Development, to focus exclusively on this programme and have set aside central funds for training and development. This is underpinned by a Group-wide assessment programme and the development of a range of training programmes. This is the first such initiative undertaken by Low & Bonar for many years and will, we believe, significantly enhance our ability to attract and retain high calibre individuals.

It is our intention that by driving these three Culture Goals in parallel, we will meet our aspirations for short, medium and long-term financial growth and create the capacity to expand by acquisition as well as organically.

Paul Forman *Group Chief Executive*


Divisional review

Group structure

Specialist Materials business

Floors

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

Specialist Materials business

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.

Plastics

Our business
With twelve 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.

Floors Division brand names – what we make and where

- **Flotex** – made in UK and France
  Unique performance by design
- **Coral** – made in the Netherlands
  The flexible clean-off system
- **Chocflex** – made in France
  The heavy-duty acoustic vinyl
- **Nuway** – made in UK
  The engineered entrance system
- **Gaskell Carpet Tiles** – made in UK
  High performance carpet tiles
- **Modulus Flooring Systems** – made in UK
  Design-leading carpet tiles

Our markets

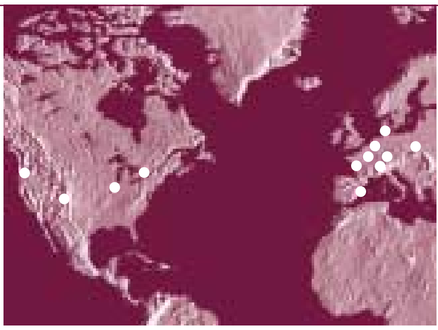
- Healthcare
- Office
- Education
- Transport
- Public buildings
- Leisure and hospitality
- Retail
- Residential housing

Our products

- **Bonar Technical Fabrics** – made in Belgium
  Non-woven geotextiles, non-woven secondary backing
- **Bonar Technical Fabrics** – made in Belgium
  Woven geotextiles, woven greenhouse screens, woven ground covers, woven industrial products
- **Bonar Yarns & Fabrics** – made in Scotland
  Carpet yarn, grass yarn

Our markets

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



Above: *The Plastics Division has operating locations well positioned to supply quality rotationally-moulded products into the demanding European and North American markets.*

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

Divisional review continued

Specialist Materials business

Floors

Above: *Flotex, a textile floorcovering offering unique durability, cleanability and appearance retention, in an office environment.*

Far left: *Flotex, a sample from the residential range.*

Left: *Gaskell Carpet Tiles in an office environment. The style and high performance of Gaskell Carpet Tiles make them the ideal choice for contemporary commercial interiors.*

2003 was a significant year for our Floors Division, with the main highlight being the acquisition and the successful integration of the Gaskell Carpet Tile Division, now renamed Bonar Tiles. The business is delivering the level of profit, expected cost synergies and the allied one-off costs in line with what was predicted at the time of acquisition.

Overall divisional turnover increased from £56.1m to £75.3m, reflecting the contribution from Bonar Tiles. Our original Floors business experienced a stronger second half in sales than in the previous year. This second half sales growth, allied to the decisive cost actions undertaken in the first half by the new Divisional Managing Director, and the contribution of Bonar Tiles, produced a rise in operating profit of 41% from £7.6m to £10.7m and in operating margin from 13.5% to 14.2%.

Both the UK and France saw an uplift in sales, whilst the markets in Benelux and Germany continue to be very sluggish. The first half was weaker in Asia due to SARS, albeit with a stronger second half and with a similar pattern in America. Australia, Japan and Eastern Europe all moved forward in the course of the year.

A new, strengthened management team is now in place across Bonar Floors which comprises personnel from the original Floors Division, from the acquired Gaskell Carpet Tiles business and several external recruits.

A key focus for the Division will now be to sustain the recent improvement in sales. Progress is being made with product development – in particular, new printing, tufting and backing technologies – and new products are being introduced more effectively and at an improved rate, correlated with a strengthening of our marketing resource.

Far left: *Chocflex, a vinyl floorcovering with acoustic backing for heavy traffic areas where durability, sound absorption and low maintenance costs are key considerations.*

Left: *Flotex in a leisure facility.*

Divisional review continued

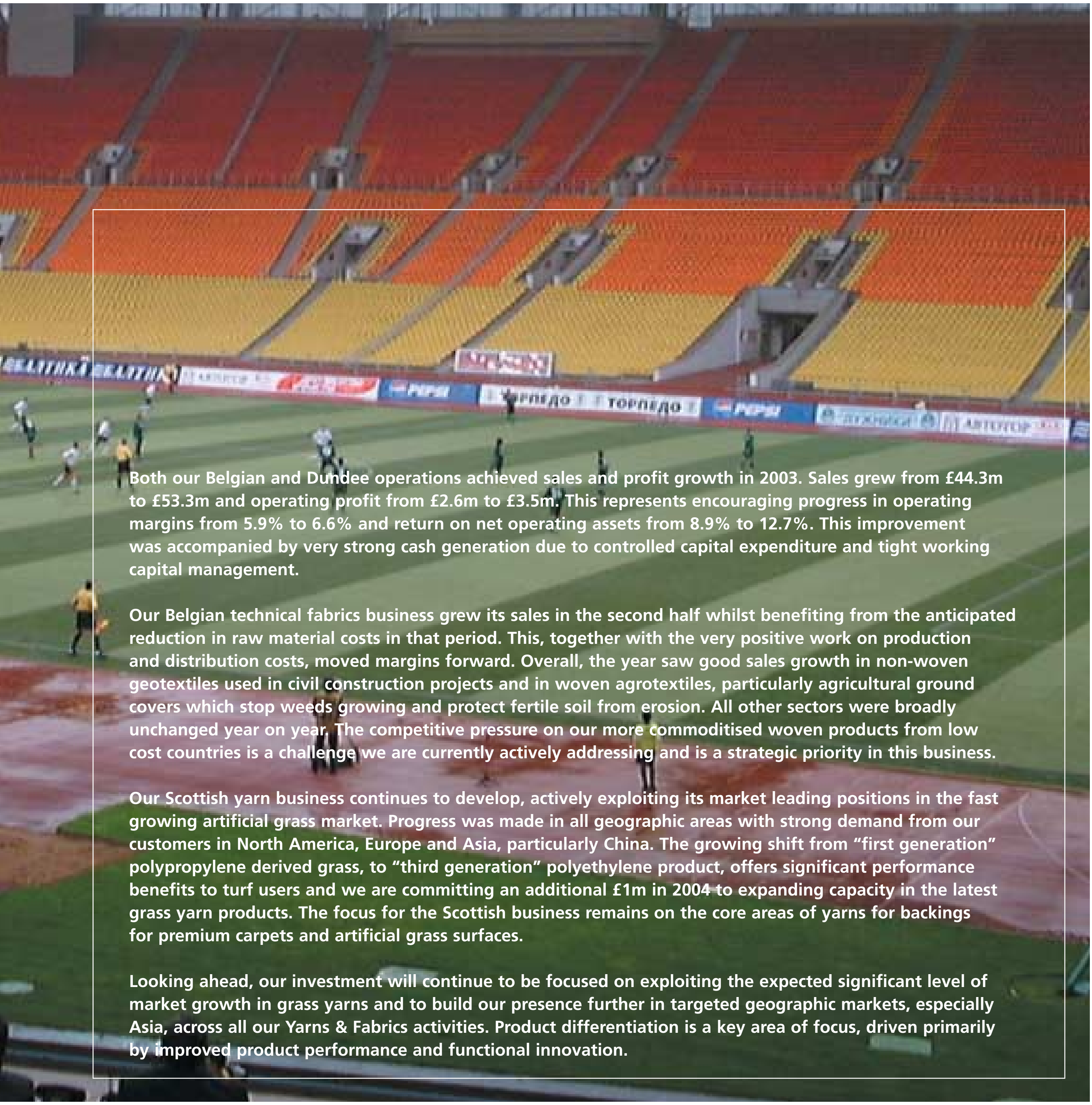
Specialist Materials business

Yarns & Fabrics

Above: *A football pitch in Moscow, Russia, using our third generation artificial grass yarn.*

Far left: *A weaving loom in our operation at Lokeren, Belgium.*

Left and right: *Examples of geotextiles being used in civil engineering projects.*



Both our Belgian and Dundee operations achieved sales and profit growth in 2003. Sales grew from £44.3m to £53.3m and operating profit from £2.6m to £3.5m. This represents encouraging progress in operating margins from 5.9% to 6.6% and return on net operating assets from 8.9% to 12.7%. This improvement was accompanied by very strong cash generation due to controlled capital expenditure and tight working capital management.

Our Belgian technical fabrics business grew its sales in the second half whilst benefiting from the anticipated reduction in raw material costs in that period. This, together with the very positive work on production and distribution costs, moved margins forward. Overall, the year saw good sales growth in non-woven geotextiles used in civil construction projects and in woven agrotextiles, particularly agricultural ground covers which stop weeds growing and protect fertile soil from erosion. All other sectors were broadly unchanged year on year. The competitive pressure on our more commoditised woven products from low cost countries is a challenge we are currently actively addressing and is a strategic priority in this business.

Our Scottish yarn business continues to develop, actively exploiting its market leading positions in the fast growing artificial grass market. Progress was made in all geographic areas with strong demand from our customers in North America, Europe and Asia, particularly China. The growing shift from “first generation” polypropylene derived grass, to “third generation” polyethylene product, offers significant performance benefits to turf users and we are committing an additional £1m in 2004 to expanding capacity in the latest grass yarn products. The focus for the Scottish business remains on the core areas of yarns for backings for premium carpets and artificial grass surfaces.

Looking ahead, our investment will continue to be focused on exploiting the expected significant level of market growth in grass yarns and to build our presence further in targeted geographic markets, especially Asia, across all our Yarns & Fabrics activities. Product differentiation is a key area of focus, driven primarily by improved product performance and functional innovation.

Left: *The outside warehouse at our non-woven operation at Zele, Belgium.*

Divisional review continued

Plastics

Sales grew despite tough markets, selected pricing competition and a deliberate exit from certain loss making contracts and 2003 saw the Plastics Division progress. Turnover across the three geographic segments increased from £62.2m to £63.0m and a loss of £0.6m was turned into a profit of £1.2m, the equivalent of a 2.9% increase in operating margins. Whilst this is a step forwards, it is only the first year in a three year programme to generate the returns that the business is capable of generating.

The financial highlight of the Division was the recovery of France, which makes up the majority of the revenue in our Southern European Plastics segment, from a very significant loss to effectively a breakeven position. The recovery of this operation had been identified as the clear priority in Plastics at the start of the year, and the business has now been stabilised with much better financial and operational controls in place.

In other parts of the Division, North America grew profits by 10%, almost exclusively through cost reduction, despite adverse currency movements and increased raw material prices particularly in the second half. In Northern Europe, Germany continued to be adversely affected by a depressed economic climate for its industrial customers, but this was offset by growth in the comparatively new Polish operation and a continued improvement in Holland. Denmark, which had a poor first half, recovered in the second part of the year.

The future direction of the Division is aimed at growth in higher value-added applications to leverage our strengths and a continued focus on process (and hence cost) improvement. We remain as technically advanced as any third party rotational moulder in the world, are significant in size and global coverage, and have a strong position in serving certain segments like chemical and food distribution, food and pharmaceutical production, heavy vehicle production, and water and waste treatment.

We have started to build the momentum behind various initiatives to exploit these advantages fully. To this end, we are announcing the appointment of Steve Good, as Divisional Managing Director of the Plastics Division, to oversee the business on a global basis.

Paul Forman *Group Chief Executive*

Above: *A modern designed cleaning machine covering seven rotomoulding parts.*

Far left: *An award-winning design, rotationally moulded in PVC, this pocket surround is fitted to a mobile electrocardiogram unit.*

Left: *A transport box for chemicals, easy to handle to make transportation safer.*

Far left: *An application on a combine harvester which has switched successfully from steel to rotomoulding.*

Left: *Street furniture, an interesting product area which maximises the strength and durability arising from the rotomoulding process.*

Financial review

Overview and Group results

Turnover grew in the year to £191.7m from £162.6m, with sales attributable to the acquisition of the Gaskell Carpet Tile Division, now named Bonar Tiles, being £19.5m. The sales on a like for like basis were £172.2m compared to £162.6m with the impact of foreign exchange accounting for £7.6m of the increase.

The operating profit before exceptional items was £11.1m compared with £7.7m the previous year. The positive contribution of the acquisition and progress in our other businesses partially offset by an increase in central costs has seen the Group improve its performance. Central costs have increased with the UK pension scheme costs continuing to rise and we have consciously invested in central resource to enhance financial control and support business growth. A part of the increase is also due to a charge of £0.5m made to cover the cost of the 2003 Long-Term Incentive Plan ("the 2003 LTIP") approved by shareholders in February 2003.

Exceptional items this year related to the costs identified at the time of the acquisition of Bonar Tiles of £491,000 which have assisted us in achieving the expected cost synergies of £500,000 per annum. As reported at the time of our interim results announcement in July 2003, action was taken in our original Floors operations to reduce many cost elements resulting in a one off cost of £434,000.

Interest increased in the year to £1.0m from £0.2m the previous year. The year saw the facilities renegotiated in order to finance the acquisition of Bonar Tiles. As a consequence, in contrast to the prior year the Group was in a net debt position for the majority of the year.

Taxation

The tax charge was £3.2m (2002: £2.4m). On a pre-exceptional basis the effective rate is 34% (2002: 35%). The rate reflects the higher tax rates we incur in many of our overseas operations.

Earnings and dividends

Earnings per share were 6.05p (2002: 2.08p). Earnings per share before exceptional items and goodwill were 6.69p (2002: 4.88p).

Preference dividends of £23,000 (2002: £23,000) were paid in the year. Ordinary dividends, both paid and proposed, for the year amount to £4.2m (2002: £4.0m).

Cash balance and cash flow

The Group started the year with net cash of £18.2m and ended the year with £10.4m. This is after having made the acquisition which cost £19.3m. As part of the acquisition we renegotiated our bank facilities. A £15m, five year loan with quarterly repayments was specifically entered into to fund the acquisition. We also have a three year facility for £15m to fund other acquisition opportunities.

Pensions

The Group has accounted for pensions under SSAP 24 "Accounting for Pension Costs" and has included disclosure in the Notes as required by the transitional rules of FRS 17 "Retirement Benefits".

SSAP 24 accounting has been based on the most recent formal actuarial valuations, which for the main UK scheme was performed at 31 March 2002. With the deterioration in stock market conditions, a revised schedule of contributions was agreed with the Trustee based on a more up to date and less favourable set of circumstances. The result is that the Group has increased its cash contributions significantly with contributions of £1.3m paid in the year with an additional £1m agreed to be paid in a lump sum in March every year.

The FRS 17 disclosure in the Notes shows a deficit of £31.9m (2002: £26.4m) which increased in the year due mainly to falling bond yields. As stated last year the Group has reviewed its pension arrangements including benefits and contribution rates.

The UK defined benefit scheme is now closed to new members and new employees will be invited to participate in a defined contribution scheme.

The profit and loss impact of contributions to Group pension schemes in 2003 was £2.5m (2002: £2.4m) and is expected to increase in 2004.

Treasury

Policies and controls Low & Bonar maintains the key relationships with external debt providers centrally. There remain some external debts in the Group subsidiaries which arose in some instances at acquisition or through major investment programmes before 2001. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of financial instruments that may be employed and the criteria for investing and borrowing cash. No transactions of a speculative nature are undertaken. As part of the continuous improvement programme across all disciplines in the Group we have commissioned a review of our operations' foreign exchange hedging policies and also a review of our overall cash pooling across Europe. The latter is intended to maximise efficiency of cash across the many operations whilst maintaining borrowing capacity to fund future acquisition opportunities.

Liquidity risk The objective is to maintain a balance between the continuity of funding and flexibility. The acquisition was specifically funded by a senior loan in order to preserve additional flexibility and net cash for future opportunities when they arise. The bank facilities have tenures ranging from one to four years.

At 30 November 2003 available undrawn bank facilities totalled £26.4m, with net cash balances of £10.4m in addition to the undrawn facilities. The Group maintains uncommitted overdraft facilities to maintain short-term flexibility.

Foreign currency risk The Group has net assets in the UK, Europe and North America. The Group policy is to partially limit the translational exposure and resulting impact on shareholders' funds by borrowing in the respective currency. This has been reduced substantially in the last three years and will be revisited should the next acquisition arise outside of the UK.

The majority of the Group's transactions are carried out in the functional currency of the Group's operations and as such transactional exposures are limited. Where they do occur the Group policy is to hedge exposures as soon as they are committed using forward foreign exchange contracts.

Interest rate risk The Group has not entered into specific instruments to mitigate the impact of interest rate changes. The Group has some euro borrowing at fixed interest rates but the other borrowings are at variable rates.

International Financial Reporting Standards The Group is intending to apply International Financial Reporting Standards during the year ending 30 November 2006. The Group has commenced work to ensure information is available for future disclosure as and when the relevant standards are finalised.

Jon Kempster *Group Finance Director*

Turnover grew in the year to £191.7m from £162.6m, with £19.5m of sales attributable to the acquisition of the Gaskell Carpet Tile Division.

Directors and advisers

Duncan Clegg *Non-executive Chairman (61)*
A non-executive director since 1994. Appointed Chairman on 1 June 2001. Deputy Chairman of Cox Insurance Holdings PLC and Vice Chairman of the Port of London Authority. Chairman of the Nominations Committee.

Paul Forman *Chief Executive Officer (38)*
Appointed as a director and Group Chief Executive on 30 September 2002. Previously a main board director of the Unipart Group of Companies Limited. His main responsibility was managing the European Automotive Aftermarket Division A member of the Nominations Committee.

Jon Kempster *Group Finance Director (41)*
Appointed as a director and Group Finance Director in 2001. A chartered accountant, he was previously Finance Director of Linden PLC and prior to that Finance Director of Fii Group plc.

Alan Cole *Non-executive director (61)*
A director since 1998. Chairman of the JP Morgan Fleming Income & Growth Investment Trust PLC, a director of NAAFI, the London International Exhibition Centre Holdings PLC and Burren Energy PLC and a member of the Board of Covent Garden Market Authority. Senior non-executive director, Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

Steve Hannam *Non-executive director (54)*
Appointed as a non-executive director on 1 September 2002. Chairman of The Skills Market Ltd and Aviagen International Group Inc and a non-executive director of the Ingredients Group of Associated British Foods plc. Formerly non-executive director of Clariant A.G. and Group Chief Executive BTP Chemicals PLC. Chairman of the Audit Committee and a member of the Remuneration Committee.

Chris Davies *Non-executive director (54)*
Appointed as a non-executive director on 1 November 2002. Non-executive Chairman of two private equity companies. Formerly Chief Executive of Hampson Industries PLC. A member of the Audit and Remuneration Committees.

Duncan Clegg

Paul Forman

Jon Kempster

Directors

*R D Clegg** Chairman
P A Forman Group Chief Executive
*A J Cole**
*C E Davies**
*S J Hannam**
J Kempster Group Finance Director

* Non-executive

Company Secretary

Amanda Whalley

Registered office

50 Castle Street
Dundee DD1 3RU

Head office

Mimet House
5A Praed Street
London W2 1NJ

Telephone 020 7298 6820
Fax 020 7298 6821
Website www.lowandbonar.com

Registered number: 8349

Registrar

Computershare Services PLC
Lochside House
7 Lochside Avenue
Edinburgh Park
Edinburgh EH12 9DJ

Telephone 0870 702 0010

Auditors

KPMG Audit Plc
St Nicholas House
31 Park Row
Nottingham NG1 6FQ

Solicitors

Freshfields Bruckhaus Deringer (London)
Clifford Chance (London)

Bankers

The Royal Bank of Scotland plc

Corporate financial advisers

ABN AMRO Corporate Finance Limited

Brokers

Hoare Govett Corporate Finance Ltd (London)
Bell Lawrie White & Co Ltd (Glasgow)

Alan Cole

Steve Hannam

Chris Davies

Report of the directors

The directors present their report and the accounts of the Company and the Group for the year ended 30 November 2003.

Principal activities The report of the directors should be read in conjunction with the Chairman's Statement, the Chief Executive's Review, the Review of Operations and the Financial Review, which contain details of the principal activities of the Group during the year and an indication of likely future developments.

Results and dividends The Group's consolidated net profit for the year, after taxation, was £6.0m (2002: £2.1m).

The directors recommend that a final dividend of 2.70p per share (2002: 1.50p), amounting to £2.7m (2002: £1.5m), be paid on 28 April 2004 to ordinary shareholders whose names appear on the register at close of business on 2 April 2004.

That dividend together with the interim dividend of 1.50p per share (2002: 2.50p) already paid will make a total dividend on the ordinary shares of 4.20p (2002: 4.00p) amounting to £4.2m (2002: £4.0m) which, with the dividends paid on the first, second and third cumulative preference stocks of £23,000 leaves a profit for the year of £1.8m (2002: loss of £1.9m).

Acquisition during the year On 21 February 2003, the Company completed the acquisition of the carpet tile division of Gaskell plc for a total cash consideration of £19.3m.

Directors The present directors of the Company, who all held office throughout the financial year under review, are shown on page 16.

Re-election of directors Mr R D Clegg will retire by rotation in accordance with the Company's Articles of Association at the annual general meeting of the Company to be held on 21 April 2004 and, being eligible, will offer himself for re-appointment.

Mr Clegg was appointed as Chairman of the Company on 1 June 2001 and has been a non-executive director since February 1994. The Company has an agreement with Clegg & Co Limited for the provision of Mr Clegg's services to the Company. This agreement may be terminated by the Company giving six months' notice in writing.

Mr A J Cole will retire as a director at the conclusion of the Company's annual general meeting. Mr Cole is the Company's senior non-executive director. Following Mr Cole's retirement, Mr S J Hannam will be appointed as the Company's senior non-executive director.

Directors' interests in shares and debentures of the Company are shown on page 30.

Substantial interests At the date of this report, the Company had been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	Shares	%
Schroder Investment Management Ltd and subsidiary and affiliated companies	24,088,777	24.22
Liontrust Investment Funds Ltd	5,118,908	5.15
AFL Fjarfestingarfelag	5,002,500	5.03
Prudential PLC – M&G	4,640,000	4.66
British Airways Pension Trustees	3,875,000	3.90
Legal & General Investment Management Ltd	3,699,432	3.72

Ordinary share capital Details of the Company's authorised and issued share capital at 30 November 2003 and of options granted under the Company's employee share option scheme are shown in note 19 to the accounts. No shares were issued during the year under review.

Annual general meeting The annual general meeting will be held at the Paddington Hilton Hotel, 146 Praed Street, London W2 1EE on 21 April 2004 commencing at 12 noon. The Notice of the Annual General Meeting is set out on pages 58 and 59.

Resolutions at the annual general meeting

Renewal of the directors' authority to allot shares The directors consider it desirable that their authorities to allot relevant securities and to allot relevant securities for cash without first offering them pro rata to existing shareholders should be renewed as set out below.

An ordinary resolution to authorise the directors to allot shares in the Company up to an aggregate nominal amount of £16,262,655 representing 32,525,310 shares, being approximately 33% of the issued ordinary share capital currently in issue, until the next annual general meeting or, if earlier, 15 months after the date of the passing of the resolution.

Renewal of the directors' authority to allot shares for cash other than to existing shareholders Conditional upon the passing of the above resolution, a special resolution will be proposed which will enable the directors to allot not more than £2,486,867 in aggregate of the nominal value of the Company's issued share capital for cash, without first offering the shares to existing shareholders.

There are at present no plans to exercise the above authorities other than in respect of shares which may be issued pursuant to the share option schemes.

Special resolution for the authority to buy back shares At the annual general meeting of the Company held on 30 April 2003, the Company was given authority to purchase up to a maximum of 10% of its own shares. This authority will expire at the annual general meeting to be held on 21 April 2004. Although no ordinary shares have been purchased by the Company during the period from 30 April 2003 to the date of this report, the Directors at the annual general meeting on 21 April 2004 will be seeking fresh authority from the Company to purchase its own shares. The resolution stipulates the minimum and maximum prices at which the ordinary shares can be bought reflecting Companies Act requirements. The authority will expire at the next annual general meeting of the Company but the directors intend to seek to renew this authority annually. The directors have no immediate intention to exercise an authority to purchase the Company's own shares, but will keep the possibility under review. If the authority is given, purchases would only be made where the Directors believed that they were in the best interests of the Company, taking into account other available investment opportunities and the overall financial position of the Group. Purchases would only be made where earnings per share would be increased.

Remuneration Report The Remuneration Report prepared in accordance with the Directors' Remuneration Report Regulations 2002 can be found on pages 26 to 31. An ordinary resolution will be proposed to shareholders to approve the Remuneration Report of the Directors. It should be noted that the result of this resolution is advisory only.

Going concern Having reviewed the medium-term forecasts and compared the cash flow with the available bank facilities, the directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

Employment of disabled persons It is the policy of the Group to give full and fair consideration to applications for employment by Group companies received from disabled persons, having regard to their particular aptitudes and abilities; and wherever possible to continue the employment of, and to arrange appropriate training for, employees who have become disabled persons during the period of their employment by a Group company. Group companies provide the same opportunities for training, career development and promotion for disabled as for other employees.

Report of the directors continued

Employee involvement The Group's overall policy is to keep employees informed on matters of concern to them and to encourage employee involvement. This policy is implemented in a wide variety of ways, which are reported on by the Group's businesses. These include the publication of an annual European Employee Communications report and regular meetings with employees' representatives.

Payment of suppliers The Company's policy and practice is to pay agreed invoices in accordance with the terms of payment agreed with suppliers at the time orders are placed. As the Company is a holding company it has no trade creditors.

Charitable and political contributions The Company has made a donation of £12,500 to the Low & Bonar Charitable Trust (2002: £12,500). The Trust is independent from the Company. The directors adhered to their policy of making no contributions to any political party.

Auditor KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

By order of the Board
Amanda Whalley *Secretary*

18 February 2004

Management of risk, health and safety and the environment

Management of the environmental impact of the Group operations remains an important subject on the Group risk control agenda and environmental issues form an integral part of the activities of the Group Risk Management Committee.

The programme of audits by the external environmental consultant continued throughout the year and included the manufacturing operations of Bonar Tiles, acquired in February 2003, based at Bamber Bridge, Preston. Visits have now been made to all the Group's manufacturing operations worldwide and, in the opinion of the environmental consultant, acceptable controls and procedures are in place at all of the Group's operations.

One of the main objectives of the Group's environmental policy is to ensure that our manufacturing operations worldwide are managed responsibly, in full compliance with all relevant laws and regulations, and that environmental damage or nuisance does not occur as a result of our activities. The Group continually reviews and evaluates its processes and practices and, where possible, takes action to reduce any potential impact of its operations on the environment. As a consequence of this ongoing programme of evaluation, the following action has been taken:

- The provision of spill control equipment for all hazardous substances stored in drums which has reduced the potential risks of land, water and drain contamination.
- Following a review, hazardous materials have been replaced, where possible, with less damaging alternatives specifically in relation to the use of solvents for cleaning.
- Improvements in process control have resulted in reductions of waste generation and subsequent landfill requirements.
- In our Floors Division the use of recycled backing has been part of our manufacturing process for some time and reduces landfill requirements.
- Significant improvement to the waste water discharge system at the Floors Division's manufacturing facility at Château-Renault, France.
- The climate change levy energy-reduction targets at the Floors Division's manufacturing facility in Ripley were met.
- Recycling programmes for both process and general waste are actively encouraged throughout the Group to maximise the efficient use of raw material and have resulted in reductions in waste sent to landfill sites. The Group remains a member of the Valpak packaging scheme for its UK subsidiaries and fully meets the requirements of the packaging waste obligations. The environmental agency has conducted audits on compliance with satisfactory results requiring no remedial action.

The Group continues to review internal targets for reduction in energy and raw material usage. The energy rating of new plant and equipment will be given higher priority in capital expenditure applications.

During the year, all the Group's locations reviewed their disaster contingency plans which include the effective control of any potential environmental incidents.

The remediation by the purchaser of the Group's North American packaging operations sold in 2000, in conjunction with the Group, of known environmental contamination in the vicinity of one of the facilities in Burlington, Ontario, continued throughout the year. Further details are provided in note 27 to the accounts.

The Group has also agreed remedial action with local environmental authorities in respect of historical gas oil pollution of the soil and groundwater at its site in Lokeren, Belgium. The contamination resulted from leakage from large gas oil tanks that were moved from the site prior to its acquisition by the Group in 1996. A cleaning programme has commenced.

The Group aims to improve its environmental procedures further and future plans for 2004 include the introduction of full environmental self-auditing across all the Group's operations. It is intended that the self-audit will cover air, land and water contamination risks in both process operation and emergency situations. The self-audit responses will be audited by the Group Risk Manager and the Group Internal Auditor.

Investigation of the environmental controls of businesses will continue to be a part of the due diligence process of all potential acquisitions.

Management of risk, health and safety and the environment continued

The Group includes environmental aspects in looking at product innovation and development. The environmental properties of products we manufacture will be considered at each stage of the introduction and manufacture of new products. Our customers are increasingly asking us to address environmental issues in tender documents, a trend we expect to continue.

Risk management and health and safety issues

Risk management and health and safety issues are reviewed by a rolling programme of visits by the Group Risk Manager and insurance risk surveyors with their recommendations forming part of the internal audit reviews.

The Group has formulated best practice standards covering all aspects of risk control and has demonstrated a proven commitment to improvements and the proper support of risk management issues. The Group standards include requirements for all sites to carry out suitable risk assessments of all their activities, provide adequate training and instruction and where possible eliminate or minimise risk of injury. An example of this is the installation of power conveyors at our Yarns & Fabrics facility in Dundee that has reduced the potential risk of injury to our employees. Another example is in our Plastics operation at Montoir, France, where this risk has been reduced through the internal development of specialised equipment to handle large plastic products.

The health and safety of our employees and others who may be affected by the Group operations forms an integral part of line management responsibility and in each location nominated personnel are identified to ensure that health and safety issues are given proper attention. The communication of health and safety matters with our employees remains key to ensuring that standards continue to improve within the Group.

Further information on how the Group manages risk is provided in the Internal Control section on pages 24 and 25.

Corporate governance

The Company is committed to maintaining high standards of corporate governance and to applying the Principles of Good Governance set out in the Combined Code appended to the Listing Rules of the Financial Services Authority ("the Code"). The Company has been in full compliance with the Code throughout the year. The Board has reviewed the requirements of the revised Combined Code appended to the Listing Rules of the Financial Services Authority issued on 1 July 2003 ("the revised Code"), that applies to accounting periods commencing on or after 1 November 2003. Where appropriate the Board has taken action to ensure compliance with the revised Code during the financial year commencing 1 December 2003.

Board of Directors

Rex Clark retired as a non-executive director of the Company at the conclusion of the annual general meeting held on 30 April 2003. The Board currently comprises two executive directors, the Chairman and three non-executive directors. Alan Cole will retire as a non-executive director at the conclusion of the annual general meeting on 21 April 2004. The Chairman and the non-executive directors are not employees of the Group and the Board considers that all non-executive directors are independent of management and free from any business or other relationships which could materially interfere with the exercise of their judgement.

The roles of the non-executive Chairman, Duncan Clegg, and that of the Group Chief Executive, Paul Forman, are separate and clearly defined. The Board believes that an effective balance of power and authority is now maintained through the number and calibre of non-executive directors who represent a source of strong independent advice and judgement. The senior non-executive director is Alan Cole. Following Alan Cole's retirement at the conclusion of the annual general meeting, Steve Hannam will be appointed as the Company's senior non-executive director.

The Board meets regularly to review the performance of the Company and to formulate strategy and is supplied in advance of each meeting with an agenda and papers covering the financial and operating performance of the Group's businesses and other matters to be considered at the meeting. The full Board met ten times during the year at which there was full attendance.

There is a formal schedule of executive authorities, which includes matters specifically reserved to the Board for decision. This schedule was formally reviewed and updated by the Board during the year. The Chairman and the non-executive directors are invited to attend meetings of the Group Executive Management, comprising the Group Chief Executive, the Group Finance Director and the Divisional Managing Directors on a regular basis. All directors have access to the advice and services of the company secretary and there is an agreed procedure for directors to take independent professional advice at the Company's expense. The Board has adopted a policy of providing appropriate training for all new directors who have not previously received such training. The Board has carried out an internal evaluation of its performance. All directors are required to offer themselves for re-election at least once every three years.

Board committees

The Audit Committee and the Remuneration Committee are the two principal committees of the Board. The Board also operates a Nomination Committee.

Audit Committee

The Audit Committee currently comprises the following non-executive directors of the Company, all of whom are considered by the Board to be independent: S J Hannam (Chairman of the Audit Committee); A J Cole; and C E Davies.

Rex Clark resigned as Chairman of the Audit Committee on 30 April 2003 upon his retirement from the Board. In accordance with the requirements of the revised Code, Duncan Clegg resigned as a member of the Committee on 22 October 2003. Duncan Clegg, Jon Kempster, Group Finance Director, Paul Forman, Group Chief Executive, the Internal Auditor, who reports directly to the Audit Committee, and the external auditors may attend the Audit Committee meetings by invitation. The Audit Committee also receives regular reports from the Group Risk Manager who may also attend meetings by invitation.

The Audit Committee, which is established with formal, written terms of reference, meets at least three times a year. The terms of reference were revised on 10 December 2003 and a copy is shown on the Company's website at www.lowandbonar.com. The Audit Committee is responsible for assisting the Board to discharge its duties with regard to the Group's financial affairs, for reviewing with the external auditors the adequacy of the Group's accounting and financial and operating controls. The Committee oversees the relationship with the external auditor including the approval of audit scope and approach and fees for audit and non-audit services. The Committee has developed and implemented a policy on the supply of non-audit services by the external auditor to ensure their continued objectivity and independence. The Committee is entitled to obtain, at the expense of the Company, such external advice as it sees fit on any matters falling within its terms of reference. The Audit Committee meets privately with the external auditors at least once a year.

The Risk Management Committee, formally established by the Board during 2000, reports to the Audit Committee. The Risk Management Committee seeks to focus and co-ordinate risk management activities throughout the Group to facilitate the identification, evaluation and management of all key business risks. Further details of the Risk Management Committee are provided in the Internal Control section on page 24.

Corporate governance continued

Remuneration Committee
The Remuneration Committee currently comprises all the non-executive directors, under the Chairmanship of Alan Cole. Following Alan Cole's retirement on 21 April 2004 Chris Davies will be appointed as Chairman of the Remuneration Committee.

The Committee is responsible for recommending to the Board the Company's broad policy for executive remuneration, including both short-term and long-term incentive arrangements, and for reviewing, at least annually, the entire remuneration packages of the executive directors and certain other senior executives of the Company. Following the amendments of the Committee's terms of reference on 11 February 2004, the Committee is also responsible for recommending the Chairman's remuneration to the Board in compliance with the revised Code. The Committee is entitled to obtain, at the expense of the Company, such external advice as it sees fit on any matters falling within its terms of reference. The Remuneration Report of the Directors for 2003 is on pages 26 to 31.

Nominations Committee
The Nominations Committee is comprised of the Chairman, the Group Chief Executive and Alan Cole, the senior non-executive director. The Committee, which is established with formal written terms of reference, is responsible for recommending to the Board candidates for appointment as both executive and non-executive directors, for recommending whether current non-executive directors should stand for re-election and for recommending to the Board all aspects of remuneration for non-executive directors.

Relations with shareholders
The Company maintains good communications with its shareholders through its interim and annual reports and through information posted on its website at www.lowandbonar.com. The Company holds regular meetings throughout the year with major shareholders, analysts and the financial press, in particular following the announcements of its interim and full year results. Visits for analysts and shareholders to operating units are also arranged from time to time. Shareholders attending the annual general meeting are invited to ask questions and to meet with the directors informally after the meeting. The Company also arranges a presentation on one of its businesses to shareholders at the annual general meeting. The numbers of proxy votes cast in respect of each resolution are announced after the resolution has been voted on by a show of hands. Notice of annual general meetings is sent to shareholders at least 20 working days prior to the date of the meeting.

Internal control
The directors acknowledge their responsibility for the systems of internal control within the Group. The purpose of these systems is to provide reasonable assurance as to the reliability of financial information and to maintain proper control over the income, expenditure, assets and liabilities of the Group. The Board has also reviewed in detail the areas of major risk that the Group faces in its operations. It has noted and is satisfied with the current control mechanisms and reporting lines that have been in place throughout the year. Specific improvement to internal controls within the Plastics business have been requested by the Audit Committee and are in the process of being implemented. However, no system of control can provide absolute assurance against material misstatement or loss. In carrying out their review, the directors have regard to what controls in their judgement are appropriate to the Group's businesses, to the materiality and the likelihood of the risks inherent in these businesses, and to the relative costs and benefits of implementing specific controls.

The Risk Management Committee chaired by the Group Chief Executive and comprising the Group Finance Director together with Divisional Management, the Group Risk Manager and the Internal Auditor, meets formally at least two times a year to review and analyse how business risks are being managed. The Risk Management Committee operates under formal terms of reference established by the Board of the Company. The Risk Management Committee initiates, directs and oversees all risk management activities within the Group and provides the forum to investigate the effectiveness of current control strategies and develop specific action plans for remedial work where it considers this to be necessary. The Risk Management Committee is committed to continue to develop and embed risk management process within the Group and focuses on the risk management process with the following objectives:

- To raise the level of management awareness and accountability for the business risks experienced by the Group.
- To develop risk management as part of the culture of the Group.
- To provide a mechanism for risk management issues to be discussed and disseminated to all areas of the Group.
- To approve new Group-wide tools and techniques to assist in the management of risk.

The Audit Committee and the Board receive reports on the work of the Risk Management Committee and reports from management on internal controls on a regular basis. The Group Risk Manager reports to the Risk Management Committee and works closely with both Divisional Management and the head office team. The Head of Internal Audit has a direct reporting line to the Audit Committee and attends Audit Committee meetings by invitation.

In addition to the risk review process and the internal audit function the Group operates within an established internal financial control framework, which can be described under three headings:

- Financial reporting – there is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly.
- Operating unit controls – financial controls and procedures including information system controls are detailed in the Group Finance and Accounting Manual. All operating units are required to confirm annually their compliance with policies and procedures set out in the manual and independent confirmation of compliance is obtained annually for selected operating units.
- Investment appraisal – the Group has clearly defined guidelines for capital expenditure which are also set out in the Group Finance and Accounting Manual. These include detailed appraisal and review procedures, levels of authority and post completion audits. Where businesses are being acquired, detailed due diligence is undertaken in advance of acquisition.

The continued development and implementation of the risk management and internal control system across the Group has allowed the directors to comply with the Combined Code provisions on internal control in the course of the financial year ended 30 November 2003.

Directors' report on remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("the Remuneration Report Regulations") which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the UK Listing Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. At the annual general meeting in 2003, before the Remuneration Report Regulations became effective for the Company, shareholders were given the opportunity to vote on the Remuneration Report. In 2004, as required by the Remuneration Report Regulations, a resolution to approve the Directors' Remuneration Report will be proposed at the forthcoming annual general meeting of the Company at which the financial statements will be put forward for approval. As before, the vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

1 The Remuneration Committee

During the year, the Remuneration Committee ("the Committee"), which has formal terms of reference approved by the Board, recommended to the Board the broad policy for the remuneration of the executive directors and other senior executives. The terms of reference of the Committee were revised on 11 February 2004. A copy of the Terms of Reference of the Committee is available on the Company's website at www.lowandbonar.com.

The Committee currently comprises the following non-executive directors of the Company, all of whom are considered by the Board to be independent: A J Cole (Chairman of the Remuneration Committee); C E Davies; and S J Hannam.

Rex Clark resigned as a member of the Committee on 30 April 2003 upon his retirement from the Board. In accordance with the requirements of the revised Combined Code appended to the Listing Rules of the Financial Services Authority issued on 1 July 2003, applicable to accounting periods commencing on or after 1 November 2003 ("the revised Code"), Duncan Clegg resigned as a member of the Committee on 22 October 2003. Duncan Clegg and the Group Chief Executive may be invited to attend meetings of the Committee. The composition and operation of the Committee comply with the provisions of the revised Code.

2 Policy on executive director and senior executive pay and benefits

During the year the Committee developed, with the assistance of independent advisers Freshfields Bruckhaus Deringer, a performance-related reward policy designed to recruit, retain and motivate high quality executive talent and align the interests of senior executives as closely as possible with the interests of shareholders. Paul Forman also provided material assistance to the Committee on the development of the new structure. The main components of the remuneration of the executive directors are:

i) Basic salary When reviewing the base salaries of the executive directors, the Committee follows the principle that levels should be based around the median remuneration paid for similar job functions in comparable public companies with variations to reflect individual performance and experience. For guidance, the Committee may consider surveys produced by consultants.

ii) Short-term bonus As part of the new performance-related reward policy referred to above, a new bonus scheme was developed for executive directors and senior executives. The bonus scheme provides an annual bonus up to 100% of basic salary provided that a combination of divisional and Company financial performance targets are met. The bonus scheme is part of a "performance contract" under which these executives are rewarded for exceptional annual performance but under which failure to meet targets on a sustained basis is likely to result in their notice period being shortened so that, in the event of termination of their employment, the Company's compensation costs would be substantially reduced. In most cases, this involves a halving of their notice periods. This performance contract adopts the principles in the Association of British Insurers' December 2002 guidelines on executive remuneration.

For the year ended 30 November 2003, the executive directors earned a short-term bonus of 66.7% of annual basic salary as two of the three financial performance targets approved by the Committee, including a performance target based on growth in Group profit, were met. In 2004, the executive directors will again be eligible to receive a short-term bonus of up to 100% of annual basic salary based on the achievement of financial targets approved by the Committee.

iii) Long-Term Incentive Plans

A) The Low & Bonar 2003 Long-Term Incentive Plan ("the 2003 LTIP") The 2003 LTIP, approved by shareholders on 14 February 2003, forms the long-term element of the new remuneration structure for the executive directors and senior executives. Both restricted share awards and share options may be granted under the 2003 LTIP.

Each element of the 2003 LTIP is described below:

a) Restricted share awards made under the 2003 LTIP entitle participants to receive ordinary shares without payment after a three year period, provided a demanding performance target set by the Committee is achieved. All restricted share awards granted in 2003 and any restricted share awards that may be granted in 2004 are "Recovery Phase Awards" (RPAs). These are high value/high performance awards which will only vest if the Company meets demanding share price growth targets and other conditions described below. The Committee will grant RPAs only to executives who have entered into the performance contract described above and RPAs will lapse if a participant's notice period is shortened for failure to meet certain performance targets. With the exception of the Group Chief Executive, who received an RPA on 28 March 2003 based on 200% of his annual basic salary, the maximum restricted share award that can be made to a participant under the 2003 LTIP in any financial year shall not exceed 100% of annual basic salary. No further RPAs will be made to individuals who received an RPA in 2003.

   The following performance conditions need to be met in order for RPAs to vest:

   1) Full vesting of RPAs will require a 125% increase in the Company's share price from a base price prior to the grant of the RPAs ("the Initial Price") during the three year period from the date of the award. Half of the shares will vest if the Company's share price increases by 100% over the same period. The Initial Price for these awards will usually be the average price for the four month period ending immediately before the grant of the RPAs (subject to a "floor" share price of 48.3p). An exception was made in the case of RPAs granted to two senior executives on 11 July 2003; the Initial Price for these awards was the same as the Initial Price for RPAs made on 28 March 2003 e.g. 53.64p in order to foster the team dynamic intended by the 2003 LTIP. Full vesting of RPAs granted on 28 March 2003 and 11 July 2003 requires an increase in the share price to 120.69p. Half of the shares will vest if the share price increases to 107.28p.

   2) The Company's earnings per share (before exceptional items) must increase by a 6% margin over the increase in the Retail Price Index over the three year period commencing with the financial year in which the grant of the RPA falls.

   3) The percentage increase in the Company's share price over the three year performance period must equal or exceed the percentage increase in the FTSE Small Cap Total Return Index over the same period.

   There will be no retest opportunities for any of the performance conditions.

   To the extent that ordinary shares vest, they will be released in equal tranches on the vesting date and the two anniversaries following vesting. If a participant leaves employment for any reason after the vesting date but before the final tranche of vested ordinary shares under the RPA has been released to the participant, they will not be entitled to any further tranches of vested ordinary shares unless the Committee permits this at its absolute discretion. However if a participant leaves employment due to their death, ill health, retirement or redundancy they, or in the case of death their estate, will be entitled to all such further tranches of vested ordinary shares under the RPA on the date or dates on which they would otherwise have been released to the participant.

   In 2005 and subsequent years, the Committee may grant restricted share awards based on different performance targets which it considers to be appropriately demanding. These performance targets will be fully described in the Directors' Report on Remuneration.

b) Options granted under the 2003 LTIP will entitle participants to acquire ordinary shares at no less than the market value of an ordinary share at the time of grant, provided that an appropriate performance target set by the Committee is achieved. Provided the performance target is achieved, options will normally be exercisable between the third and tenth anniversaries of grant. No options have been granted under the 2003 LTIP to date. It is the intention that options will be granted to senior executives in 2004 on demanding performance conditions. Participants will not normally be granted share options in the same year as they receive restricted share awards. No participants who received RPAs will be granted options during 2004.

   As explained in the Company's 2002 Annual Report and Accounts, the Committee granted Paul Forman an RPA on the terms set out above in substitution of the long-term incentive arrangement agreed with him at the time of his recruitment as Group Chief Executive in June 2002. Further details of the long-term incentive arrangement are provided in Table 4 on page 30.

Directors' report on remuneration continued

B) **The Low & Bonar 1999 Senior Executive Long Term Incentive Plan ("the 1999 Plan")** The 1999 Plan was approved by shareholders in 1999. The maximum award that could be made under the 1999 Plan in any one year was based on 100% of a participant's basic annual salary. If shares vest they are released to participants without payment. The performance target for awards made on 28 March 2001 is detailed in Table 6 below. There are no other outstanding awards under the 1999 Plan. No shares have been released to participants under the 1999 Plan as no awards made under the 1999 Plan have met the performance conditions and all shares have lapsed or will lapse on 28 March 2004. Following the adoption by shareholders of the 2003 LTIP no further awards will be made under the 1999 Plan.

iv) Other share based incentives No share options have been granted under the 1994 (No.1) Management Share Option Scheme and the 1994 (No.2) Management Share Option Scheme since February 1999 and no further share options will be granted. No executive director had any executive share options outstanding at 30 November 2003.

Executive directors remain eligible to participate in the Low & Bonar 1997 Sharesave Scheme, which is open to all eligible UK employees. Options are granted under three, five or seven year SAYE contracts at a maximum discount of 20% to the stock market price at the offer date. The maximum overall employee contribution is £250 per month. Details of each director's interest in this scheme are shown in Table 7 on page 31.

3 Policy on directors' service contracts

Paul Forman's employment may be terminated by the Company giving Paul Forman not less than 12 months' notice in writing or by Paul Forman giving the Company not less than six months' notice in writing. In the event of termination by the Company, the Company has the discretion to make a payment in lieu of notice and the Committee may award Paul Forman a bonus for the year of termination. If Paul Forman's employment is terminated within 12 months of a change of control of the Company, he will be entitled to a bonus in addition to the amount of any payment in lieu of notice. The bonus is calculated as follows:

a) if the change of control occurs at any time after 20 September 2004, the bonus will be the average of the bonuses paid or payable to him in respect of the complete bonus years prior to the date on which his employment is terminated (subject to a maximum of three years preceding that date);

b) if the change of control occurs after Paul Forman has been awarded a bonus payment but before 30 September 2004 the bonus will be equal to the amount of bonus paid to him in respect of his first year of employment (annualised if necessary).

Jon Kempster's employment may be terminated by the Company giving him not less than twelve months' notice in writing or by Jon Kempster giving the Company not less than three months' notice in writing. In the event of termination by the Company, the Company has the discretion to make a payment in lieu of notice.

Paul Forman and Jon Kempster have both entered into a letter of variation to their service contract under which they are eligible to participate in the new bonus arrangement which provides for an annual bonus of up to 100% of salary provided that a combination of specific annual performance targets are met, as detailed in section 2(ii) above. Certain performance targets will be capable of receiving a "Strike". Failure to achieve one or more of these performance targets in any financial year will constitute a "Strike". In the event of two Strikes in any period of three years the Company shall be entitled to terminate the employment of Paul Forman on twelve weeks' notice or Jon Kempster on six months' notice (rather than the twelve months' notice to which Paul Forman and Jon Kempster would be entitled on dismissal by the Company other than dismissal for gross misconduct). Neither Paul Forman nor Jon Kempster received a Strike during the financial year ended 30 November 2003.

4 Policy on non-executive directors' fees and appointment

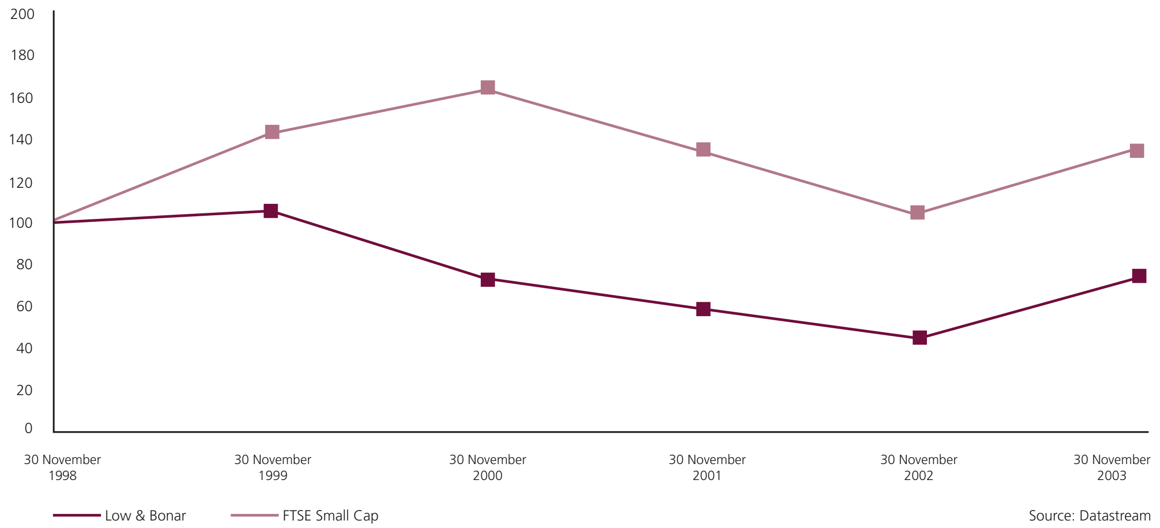
The remuneration of the non-executive directors is determined by the Board, based on recommendations from the Nominations Committee, with the non-executive directors concerned not participating in the decision. The Committee determines the remuneration of the Chairman. Remuneration paid to the Chairman and to the non-executive directors during the year is shown in Table 2 on page 29.

The non-executive directors have letters of appointment renewable for periods of three years. Alan Cole, Steve Hannam and Chris Davies have letters of appointment for three years from 30 June 2001, 1 September 2002 and 1 November 2002 respectively. Duncan Clegg's appointment as Chairman was renewed for a period of three years with effect from 1 June 2003. During the year Clegg & Company Limited received the fee for Duncan Clegg's services to the Company. The appointment of the Chairman and any of the non-executive directors may be terminated by either the director or the Company giving six months' notice in writing. The Chairman and the non-executive directors do not participate in the Company's annual bonus scheme, in any of the Company's share incentive schemes or in the Company's pension scheme.

5 Performance graph

The following graph charts the total cumulative shareholder return of the Company since 1 December 1998 against the return on the FTSE Small Cap Total Return Index (the "Index"). In the opinion of the Committee the Index is the appropriate benchmark for the Company.

Total return indices – Low & Bonar and FTSE Small Cap



The auditors are required to report on the information contained in the following part of this report.

Table 1: Directors' emoluments for the year ended 30 November 2003

	£
Company	
Salaries	**364,000**
Bonus	**242,679**
Benefits in kind	**31,481**
Fees to non-executive directors	**169,360**
Gains made on exercise of share options and Long-Term Incentive Plan awards	**–**
Aggregate emoluments	**807,520**

Table 2: Analysis of individual directors' emoluments

	Salaries and fees £	Annual bonuses £	Benefits in kind[1] £	**Total 2003 £**	Total 2002 £
Executive directors					
P A Forman[2]	225,000	150,008	17,161	**392,169**	40,360
J Kempster	139,000	92,671	14,320	**245,991**	167,706
P Reeder[3]	–	–	–	**–**	140,803[5]
Non-executive directors					
R D Clegg[8]	83,710	–	–	**83,710**	103,550[5]
N R Clark[4,7]	10,933	–	–	**10,933**	25,575
A J Cole[6]	26,405	–	–	**26,405**	25,575
C E Davies[2]	23,230	–	–	**23,230**	1,875
S J Hannam[2,7]	25,082	–	–	**25,082**	5,625
Aggregate emoluments	533,360	242,679	31,481	**807,520**	511,069

Directors' report on remuneration continued

Table 2: Analysis of individual directors' emoluments continued

Notes

1 Benefits in kind are: company car, car allowance, private telephone rental, fuel and health insurance for the director and his spouse/children under 21.
2 Messrs Forman, Davies and Hannam were appointed as directors on 30 September 2002, 1 November 2002 and 1 September 2002 respectively.
3 Mr Reeder resigned as a director on 14 June 2002. In addition to this payment Mr Reeder received compensation payments in 2002 totalling £369,597 for loss of office in accordance with the terms of his contract.
4 Dr Clark retired as a director on 30 April 2003.
5 Mr Clegg's 2002 fee included a special fee of £35,000 for his additional service to the Company for acting as Group Chief Executive during the period 17 June 2002 to 30 September 2002.
6 Mr Cole received a fee of £3,175 for his Chairmanship of the Remuneration Committee.
7 Mr Hannam received a fee of £1,852 for his Chairmanship of the Audit Committee from 1 May 2003, following the retirement of Dr Clark as Audit Committee Chairman. During the year, Dr Clark received a fee of £1,315 for his Chairmanship of the Audit Committee to his retirement on 30 April 2003.
8 Included in the fee paid to Clegg & Co Limited is a fee of £7,050 for his Chairmanship of the Low & Bonar Group Retirement Benefit Scheme ("the Scheme"). This fee is re-charged by the Company to the Scheme.

Pension entitlements Paul Forman and Jon Kempster are not members of the Low & Bonar Group Retirement Benefit Scheme, the Company's pension scheme. Paul Forman and Jon Kempster are paid a sum equal to 30% and 25% of their basic salary respectively to enable them to make retirement benefit arrangements. Payments made under this arrangement during the year to Paul Forman and Jon Kempster were £67,500 and £34,750 respectively.

Until his date of resignation on 14 June 2002, Phil Reeder was paid a sum equal to 37% of his basic salary, less the amount of his and the Company's contributions to the defined benefit scheme, to enable him to make private retirement benefit arrangements. Payments made under that arrangement for the period to 14 June 2002 were £33,880.

Table 3: Directors' interests in shares The beneficial interests of the directors in the ordinary 50p shares of the Company as at 30 November 2003 were:

Director	**30 November 2003**	1 December 2002
R D Clegg	**16,550**	6,550
P A Forman	**10,000**	10,000
A J Cole	**27,086**	27,086
C E Davies	**5,000**	–
S J Hannam	**40,878**	11,862
J Kempster	**13,590**	13,590

Note

No changes in directors' interests during the period 1 December 2003 to 18 February 2004 have been notified to the Company. No director held any beneficial interest in or options over shares in or debentures of any other Group company at 30 November 2003 or at 18 February 2004.

Table 4: The Low & Bonar 2003 Long-Term Incentive Plan ("the 2003 LTIP") Awards held by directors at 30 November 2003 under the 2003 LTIP were as follows:

	Number of shares awarded			
Director	At 1 December 2002	**At 30 November 2003**	Award price p	Vesting date[1]
J Kempster	–	**259,135**	53.64	28/03/06
P A Forman	–	**838,926**	53.64	28/03/06

Note

1 To the extent that ordinary shares vest, they will be released in equal tranches on the vesting date and the two anniversaries following vesting e.g. one third will vest on 28 March 2006, one third on 28 March 2007 and the final tranche on 28 March 2008.

Full details of the above awards made on 28 March 2003 and the performance conditions that need to be met for the shares to vest are detailed in 2(iii)(A) above.

Table 5: Other long-term incentive arrangements

As detailed in section 2(iii)(A) above, the Committee granted Paul Forman an RPA on the terms set out above in substitution of the long-term incentive arrangement agreed with him at the time of his recruitment as Group Chief Executive in June 2002. The long-term incentive arrangement made to Paul Forman on 30 September 2002 was made on the following terms:

Director	Number of shares awarded	Award price p	Vesting date	Lapsed date
P A Forman	593,667	75.8	30/11/05	28/03/03

Vesting of shares awarded under the above long-term incentive arrangement was subject to the following performance target: The full number of ordinary shares under the above award would vest on 30 November 2005 if the mid market closing price of an ordinary share (averaged over a 90 day period) had reached 151.6p by 20 November 2005. Half of the ordinary shares under the award would vest if the mid market closing price of an ordinary share (averaged over a 90 day period) had reached 132.65p by 30 November 2005. No ordinary shares would vest if the mid market closing price of an ordinary share (averaged over a 90 day period) had not reached 132.65p by 30 November 2005.

In addition, the vesting of ordinary shares was dependent on the Company's earnings per share (before exceptional items) increasing by at least an amount equal to the increase in the retail price index plus 6% over the three year period commencing 1 December 2001.

Only one third of the ordinary shares which vest on the terms described above would be released on 30 November 2005. The balance would be released in equal tranches on the first and second anniversaries of that date.

Table 6: The Low & Bonar 1999 Senior Executive Long-Term Incentive Plan ("the Plan")

Awards held by directors at 30 November 2003 under the Plan were as follows:

Director	Number of shares awarded At 1 December 2002	At 30 November 2003	Award price p	Vesting date[1]
J Kempster	135,416	**135,416**	96.00	28/03/04

The performance target for the above award is based on Low & Bonar's Total Shareholder Return over the period 1 December 2000 to 30 November 2003 measured against the FTSE Small Cap Total Return Index ("the Index"). No ordinary shares will be released unless the Company performs better than the median of the Index, at which point 25% of the award will be released at no cost, rising on a straight line basis to 100% of the award for a performance of 13% or more better than that of the Index.

Note

1 The above award will lapse in total on 28 March 2004, as the performance target has not been satisfied.

Table 7: Directors' share options

Share options held by directors at 30 November 2003 under the Low & Bonar 1997 Sharesave Scheme were as follows:

Director	Number of options At 1 December 2002	Granted during year	Exercised during year	At 30 November 2003	Exercise price p	Dates options are exercisable
J Kempster	18,627	–	–	**18,627**	51	1/10/05 to 31/03/06

No options have been granted or exercised in the period from 1 December 2003 to 18 February 2004.

The market price of the shares at 30 November 2003 was 75.5p and the range during the year to 30 November 2003 was 42.5p to 89.0p.

Alan J Cole *Chairman, Remuneration Committee*
on behalf of the Board of Directors

18 February 2004

Directors' responsibilities for preparation of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Low & Bonar PLC

We have audited the financial statements on pages 34 to 56. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 32, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 23 to 25 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 November 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor, Nottingham

18 February 2004

Consolidated profit and loss account

for the year ended 30 November 2003

	Notes	2003 £000	2002 £000
Turnover	1		
Existing		**172,190**	162,637
Acquisition		**19,514**	–
		191,704	162,637
Operating profit before amortisation and exceptional costs			
Existing		**9,058**	7,722
Acquisition		**2,409**	–
Amortisation			
Acquisition		**(397)**	–
Operating profit before exceptional costs		**11,070**	7,722
Exceptional operating costs			
Existing			
– restructuring costs		**(434)**	(1,348)
Acquisition			
– integration costs		**(491)**	–
Operating profit	2		
Existing		**8,624**	6,374
Acquisition		**1,521**	–
		10,145	6,374
Exceptional non-operating items:	6		
Loss on disposal of businesses		**–**	(1,683)
Profit before interest		**10,145**	4,691
Net interest payable	7	**(953)**	(215)
Profit on ordinary activities before taxation	1	**9,192**	4,476
Taxation	8	**(3,151)**	(2,383)
Profit for the financial year		**6,041**	2,093
Dividends (including non-equity)	9	**(4,201)**	(4,002)
Transferred to reserves	20	**1,840**	(1,909)
Earnings per ordinary share before operating and non-operating exceptional items	10	**6.69p**	4.88p
Basic earnings per ordinary share	10	**6.05p**	2.08p
Fully diluted earnings per ordinary share	10	**6.04p**	2.08p

All results are derived from continuing operations.

Balance sheets
at 30 November 2003

	Notes	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Fixed assets					
Intangible assets	11	**9,850**	–	**–**	–
Tangible assets	12	**58,744**	57,455	**714**	670
Investments	13	**–**	–	**93,122**	93,122
		68,594	57,455	**93,836**	93,792
Current assets					
Stocks	14	**32,098**	24,087	**–**	–
Debtors	15				
– due within one year		**43,317**	39,445	**83,042**	66,480
– due after one year		**5,746**	5,652	**5,728**	5,640
		49,063	45,097	**88,770**	72,120
Cash and short-term deposits	17	**27,862**	30,131	**–**	6,739
		109,023	99,315	**88,770**	78,859
Creditors – due within one year	16				
Bank and other borrowings		**5,049**	8,030	**12,463**	6,074
Other creditors		**50,073**	40,405	**44,067**	44,138
		55,122	48,435	**56,530**	50,212
Net current assets		**53,901**	50,880	**32,240**	28,647
Total assets less current liabilities		**122,495**	108,335	**126,076**	122,439
Creditors – due after one year	16				
Bank and other borrowings		**12,427**	3,870	**9,750**	–
Other creditors		**3,061**	2,322	**–**	–
		15,488	6,192	**9,750**	–
Provisions for liabilities and charges	18				
Deferred taxation		**4,634**	5,204	**–**	–
		102,373	96,939	**116,326**	122,439
Capital and reserves					
Equity and non-equity called up share capital	19	**50,137**	50,137	**50,137**	50,137
Share premium account	20	**60,424**	60,424	**60,424**	60,424
Exchange reserve	20	**(5,985)**	(9,453)	**–**	–
Profit and loss account	20	**(2,203)**	(4,169)	**5,765**	11,878
Shareholders' funds					
– equity		**101,973**	96,539	**115,926**	122,039
– non-equity		**400**	400	**400**	400
		102,373	96,939	**116,326**	122,439

The accounts on pages 34 to 56 were approved by the Board of Directors on 18 February 2004 and were signed on its behalf by:

R D Clegg *Director*   P Forman *Director*

Consolidated cash flow statement

for the year ended 30 November 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
Net cash inflow from operating activities	21		**19,426**		11,132
Interest received		**496**		1,046	
Interest paid		**(1,019)**		(1,570)	
Non-equity dividends paid		**(23)**		(23)	
Returns on investments and servicing of finance			**(546)**		(547)
Tax (paid)/recovered			**(1,949)**		1,193
Purchase of tangible fixed assets		**(3,892)**		(5,632)	
Sale of tangible fixed assets		**667**		2,840	
Receipt of government grants		**140**		–	
Capital expenditure			**(3,085)**		(2,792)
Acquisition of subsidiary	22	**(19,326)**		–	
Sale of subsidiary	23	**39**		333	
Acquisitions and disposals			**(19,287)**		333
Equity dividends paid			**(2,984)**		(5,970)
Net cash (outflow)/inflow before management of liquid resources and financing			**(8,425)**		3,349
Management of liquid resources					
Decrease in short-term deposits			**6,800**		30,000
Repayment of loans due under one year		**(3,329)**		(29,719)	
Additional/(repayment of) loans due after one year		**8,478**		(1,967)	
Financing			**5,149**		(31,686)
Increase in cash	24		**3,524**		1,663

	2003 £000	2002 £000
Reconciliation of net cash		
Opening net cash	**18,231**	14,858
Exchange rate fluctuations	**580**	24
Net cash flow	**(8,425)**	3,349
Closing net cash	**10,386**	18,231

Consolidated statement of total recognised gains and losses

for the year ended 30 November 2003

	2003 **£000**	2002 £000
Profit for the financial year	**6,041**	2,093
Currency translation differences on overseas net investments and related borrowings	**3,144**	(470)
Total recognised gains for the year	**9,185**	1,623

Reconciliation of movements in consolidated shareholders' funds

for the year ended 30 November 2003

	2003 **£000**	2002 £000
Profit for the financial year	**6,041**	2,093
Dividends	**(4,201)**	(4,002)
Result for the year	**1,840**	(1,909)
Other recognised gains and losses relating to the year	**3,144**	(470)
Long-Term Incentive Plan charge	**450**	–
Goodwill transferred to profit and loss account on disposal of businesses	**–**	1,154
Net increase/(decrease) in shareholders' funds	**5,434**	(1,225)
Shareholders' funds at start of the year	**96,939**	98,164
Shareholders' funds at end of the year	**102,373**	96,939

Accounting policies

i) Financial year end The Group operates to a calendar month-end accounting timetable. The accounts are for the year ended 30 November 2003.

ii) Accounting convention The accounts have been prepared using the historical cost convention and in accordance with applicable accounting standards.

iii) Basis of consolidation a) The consolidated accounts include the results of the parent company and all subsidiaries. The acquisition method of accounting has been adopted. The results of companies acquired during the year are included from the effective date of acquisition. Companies sold during the year are included up to the effective date of disposal.

b) No profit and loss account is presented for Low & Bonar PLC, as permitted by Section 230 of the Companies Act 1985.

iv) Goodwill Prior to the introduction of FRS 10 "Goodwill and Intangible Assets", goodwill arising on consolidation was written off against reserves on acquisition but is now capitalised and amortised through the profit and loss account over its estimated useful life of 20 years. Goodwill previously written off has not been reinstated. On any subsequent disposal of a business, any related goodwill written off against reserves will be charged to the profit and loss account in the year of disposal.

v) Tangible fixed assets The cost of fixed assets is shown before deduction of government grants where applicable. Assets acquired under finance leases are capitalised and outstanding instalments are included in creditors. The cost of fixed assets except freehold land is reduced by annual depreciation on a straight line basis to residual value over the following estimated useful lives:

Freehold buildings	20 – 50 years
Plant and equipment	3 – 15 years

Leasehold property is depreciated on a straight line basis over the shorter of the life of the relevant lease and the useful life of the property.

vi) Operating leases Leasing payments are charged to profit and loss on a straight line basis over the period of the lease.

vii) Government grants Government grants in respect of capital expenditure are credited to the profit and loss account over the period of the estimated useful life of the relevant fixed assets. The government grants shown in the balance sheet represent grants received or receivable to date, less the amounts so far credited to profits.

viii) Deferred taxation The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provision without discounting for deferred taxation is made for all timing differences as they arise, subject to a test of recoverability. No provision is made for the taxation liabilities that would arise if retained earnings of overseas subsidiary undertakings were remitted to the United Kingdom, because there is no intention to remit such earnings by way of dividend.

ix) Stock valuation Raw materials and bought-in components are valued on the basis of actual cost including freight and handling charges, or net realisable value if lower. Work in progress and finished goods are valued at the lower of cost and net realisable value. Cost comprises material, labour and attributable production overheads; in the case of certain overseas subsidiaries cost on this basis is determined by reference to selling price less a reduction to reduce inventory to production cost.

x) Research and development Expenditure on research and development is written off against profits in the year in which it is incurred.

xi) Translation of foreign currencies Assets and liabilities expressed in foreign currencies are translated into sterling at exchange rates ruling at the date of the balance sheet. The results of overseas subsidiaries are translated into sterling at the average rate for the year. The effect of movement in exchange rates on opening net assets of these companies and related borrowings is dealt with in reserves. Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction.

xii) Pension costs Pension schemes are in operation covering the majority of Group employees. Amounts charged against profits are calculated with actuarial advice and represent a charge to cover the accruing liabilities on a continuing basis. Independent actuarial valuations of the schemes are made at least every three years.

xiii) Long-Term Incentive Plan The Long-Term Incentive Plan has been accounted for in accordance with UITF 17 (amended December 2003) so as to spread the anticipated cost to the Company over the associated performance period. The cost is included within administrative expenses.

Notes to the accounts

1 Segmental information

	Turnover		Profit		Net assets	
	2003 £000	2002 £000	**2003 £000**	2002 £000	**2003 £000**	2002 £000
Classes of business						
Floors						
– existing businesses	**55,820**	56,072	**8,704**	7,553	**20,023**	20,412
– acquisition	**19,514**	–	**2,012**	–	**19,387**	–
Total Floors	**75,334**	56,072	**10,716**	7,553	**39,410**	20,412
Yarns & Fabrics	**53,326**	44,342	**3,523**	2,630	**27,781**	29,471
Total Specialist Materials	**128,660**	100,414	**14,239**	10,183	**67,191**	49,883
North European Plastics	**23,257**	21,721	**926**	836	**12,409**	12,610
South European Plastics	**18,126**	18,728	**(295)**	(1,948)	**6,259**	6,928
North American Plastics	**21,661**	21,774	**537**	489	**12,848**	13,798
Total Plastics	**63,044**	62,223	**1,168**	(623)	**31,516**	33,336
	191,704	162,637	**15,407**	9,560	**98,707**	83,219
Central costs			**(4,337)**	(1,838)		
Pre-exceptional operating profit			**11,070**	7,722		
Exceptional operating costs (note 2)			**(925)**	(1,348)		
Operating profit			**10,145**	6,374		
Exceptional non-operating costs			**–**	(1,683)		
Net interest			**(953)**	(215)		
Group profit before taxation			**9,192**	4,476		
Non-operating liabilities					**(6,720)**	(4,511)
Net cash					**10,386**	18,231
Total net assets					**102,373**	96,939
Geographical segments						
By origin:						
United Kingdom	**60,559**	37,125	**9,225**	7,328	**35,761**	18,002
Europe	**109,484**	102,092	**5,654**	2,267	**49,893**	50,809
North America	**21,661**	23,420	**528**	(35)	**13,053**	14,408
	191,704	162,637	**15,407**	9,560	**98,707**	83,219
Central costs			**(4,337)**	(1,838)		
Pre-exceptional operating profit			**11,070**	7,722		
Exceptional operating costs			**(925)**	(1,348)		
Operating profit			**10,145**	6,374		
Exceptional non-operating costs			**–**	(1,683)		
Net interest			**(953)**	(215)		
Group profit before taxation			**9,192**	4,476		
Non-operating liabilities					**(6,720)**	(4,511)
Net cash					**10,386**	18,231
Total net assets					**102,373**	96,939

Notes to the accounts continued

1 Segmental information continued

	Turnover 2003 £000	Turnover 2002 £000
Turnover by destination		
United Kingdom	**41,899**	22,211
Continental Europe	**107,111**	99,578
North America	**31,053**	30,225
Rest of World	**11,641**	10,623
	191,704	162,637

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

Exceptional operating costs in 2003 relate to the Floors business. £434,000 was spent reorganising the existing business with a further £491,000 spent integrating the acquired Tiles business. The segment discloses the result of the Divisions with central costs shown separately. This represents an enhanced disclosure from last year and the comparatives have been reanalysed accordingly.

Non-operating liabilities comprise tax and deferred tax, dividends, provisions and Company other debtors greater than one year.

2 Operating profit

	2003 Total £000	2002 Total £000
Turnover	**191,704**	162,637
Cost of sales	**122,386**	103,898
Gross profit	**69,318**	58,739
Distribution costs	**11,265**	10,564
Administration costs	**47,908**	41,801
Other operating costs	**59,173**	52,365
	10,145	6,374
Operating profit	**10,145**	6,374
Operating profit is stated after charging/(crediting):		
Exceptional operating costs:		
Senior Group management changes	**–**	812
Bonar Floors US closure costs	**–**	536
Bonar Floors restructuring	**434**	–
Bonar Tiles integration costs	**491**	–
	925	1,348
Depreciation	**8,733**	7,738
Amortisation of goodwill	**397**	–
Research and development costs	**1,666**	1,283
Operating lease charges – plant	**1,342**	755
– buildings	**644**	602
Government grants	**(83)**	(68)
Auditor's remuneration	**304**	255
Auditor and affiliates' remuneration for non-audit work	**376**	373

2 Operating profit continued

The auditor's remuneration for the Company, included above, was £74,000 (2002: £70,000). In addition to the amounts stated above, auditor and affiliates' remuneration of £331,000 is included within acquisition fees and costs of £1,546,000 (see note 22). In 2002 fees for non-audit work of £30,000 were charged to non-operating exceptional items during the year.

The total amounts paid to the auditor and affiliates during 2003 was £1,011,000. The total spend of £707,000 on non-audit fees during 2003 is analysed as follows.

	2003 £000
Acquisition due diligence/planning	**308**
Corporate tax compliance	**208**
Corporate tax consultancy	**95**
Other, including legal and non-corporate tax advice	**96**
	707

3 Staff costs

	2003 Number	2002 Number
Average number of employees by activity:		
Specialist materials	**1,182**	1,038
Plastics	**1,039**	1,069
	2,221	2,107

	2003 £000	2002 £000
Employee costs:		
Wages and salaries	**47,340**	43,909
Social security costs	**8,816**	7,902
Other pension costs	**2,521**	2,463
	58,677	54,274

4 Directors' remuneration

Details of directors' remuneration, share options, long-term incentive scheme interests and pension entitlements are given in the Directors' Report on Remuneration on pages 26 to 31 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 page 30.

6 Exceptional non-operating items

	2003 £000	2002 £000
Loss on disposal of business before goodwill written back	**–**	529
Goodwill previously written off to reserves	**–**	1,154
Loss on disposal of business (note 23)	**–**	1,683

Notes to the accounts continued

7 Net interest payable

	2003 £000	2002 £000
Interest payable:		
– on bank borrowings	**1,237**	1,170
– other	**117**	125
	1,354	1,295
Interest receivable	**(401)**	(1,080)
	953	215

8 Tax on profit on ordinary activities

	2003 £000	2002 £000
Tax on profit on ordinary activities		
UK corporation tax on the profits of the year	**2,944**	1,635
Overseas taxation	**910**	1,090
Total current tax	**3,854**	2,725
Adjustments to tax charged in previous years		
UK corporation tax	**(121)**	(921)
Overseas taxation	**110**	368
Current tax charge for the period	**3,843**	2,172
Deferred taxation	**(692)**	211
Total taxation expense for the year	**3,151**	2,383

	2003 £000	2002 £000
Factors affecting the tax charge in the current period		
Profit on ordinary activities before tax	**9,192**	4,476
Current tax at UK standard rate of corporation tax 30% (2002: 30%)	**2,758**	1,343
Effects of:		
Permanently disallowable expenses	**1,032**	792
Utilisation of tax losses	**(738)**	(338)
Related depreciation greater than capital allowances	**231**	63
Deferred tax not credited	**469**	894
Higher tax rates on overseas earnings	**269**	86
Other short-term timing differences	**(189)**	(115)
Adjustments to tax charged in previous years	**11**	(553)
Current tax charge for the period	**3,843**	2,172

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 UK.

9 Dividends

	2003 £000	2002 £000
On non-equity shares:		
First, second and third cumulative preference stock		
Half year to 31 May 2003 (paid)	**11**	11
Half year to 30 November 2003 (since paid)	**12**	12
	23	23
On equity shares:		
Ordinary shares		
Interim dividend of 1.50p (2002: 2.50p) (paid)	**1,492**	2,487
Final dividend of 2.70p (2002: 1.50p) (proposed)	**2,686**	1,492
	4,201	4,002

10 Earnings per ordinary share

	2003 £000	2002 £000
Profits are calculated as follows:		
Profit after tax	**6,041**	2,093
Preference dividend	**(23)**	(23)
Profits attributable to equity shareholders	**6,018**	2,070
Exceptional non-operating items	**–**	1,683
Taxation relief thereon	**–**	–
Exceptional operating costs	**925**	1,348
Taxation relief thereon	**(289)**	(244)
Earnings before exceptional items	**6,654**	4,857
Basic earnings per share	**6.05p**	2.08p
Earnings per share before operating and non-operating exceptional items	**6.69p**	4.88p
Fully diluted earnings per share	**6.04p**	2.08p

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

The calculation of basic and pre-exceptional earnings per share is based on the number of ordinary shares in issue during the year of 99,474,690 (2002: 99,474,690). 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 Sharesave Scheme being 208,151 shares. The Low & Bonar 2003 Long-Term Incentive Plan is non-dilutive due to the shares concerned being treated on a contingent basis in accordance with the treatment prescribed by FRS 14.

Notes to the accounts continued

11 Intangible fixed assets

	Goodwill £000
Cost	
At 1 December 2002	–
Additions (see note 22)	10,247
At 30 November 2003	**10,247**
Amortisation	
At 1 December 2002	–
Charge for the year	397
At 30 November 2003	**397**
Net book value	
At 30 November 2003	**9,850**
At 1 December 2002	–

12 Tangible fixed assets

	Group Land and buildings £000	Group Plant and machinery £000	Group Total £000	Company Land and buildings £000	Company Plant and machinery £000	Company Total £000
Cost:						
At 1 December 2002	38,251	107,563	145,814	1,894	1,016	2,910
Exchange adjustment	1,504	5,431	6,935	–	–	–
Acquisition of subsidiary (see note 22)	2,862	1,846	4,708	–	–	–
Additions	279	3,299	3,578	97	28	125
Disposals	(1,525)	(5,955)	(7,480)	(45)	–	(45)
At 30 November 2003	**41,371**	**112,184**	**153,555**	**1,946**	**1,044**	**2,990**
Depreciation:						
At 1 December 2002	13,318	75,041	88,359	1,286	954	2,240
Exchange adjustment	607	3,925	4,532	–	–	–
Disposals	(912)	(5,901)	(6,813)	(45)	–	(45)
Charge for the year	891	7,842	8,733	53	28	81
At 30 November 2003	**13,904**	**80,907**	**94,811**	**1,294**	**982**	**2,276**
Net book value:						
At 30 November 2003	**27,467**	**31,277**	**58,744**	**652**	**62**	**714**
At 1 December 2002	24,933	32,522	57,455	608	62	670

Gross book value of land and buildings for the Group includes land £3,489,000 (2002: £3,049,000) which is not depreciated. Gross book value of fixed assets for the Group includes assets in the course of construction £227,000 (2002: £171,000) which have not been depreciated.

The aggregate amount of contracts for capital expenditure not provided in the accounts was £67,000 (2002: £182,000).

12 Tangible fixed assets continued

The net book value of land and buildings comprises:

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Freehold	**27,128**	24,602	**500**	500
Long leasehold	**–**	222	**–**	–
Short leasehold	**339**	109	**152**	108
	27,467	24,933	**652**	608

13 Fixed asset investments

	Cost £000	Provisions £000	Net £000
Company			
At 1 December 2002 and **at 30 November 2003**	**97,519**	**(4,397)**	**93,122**

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

14 Stocks

	2003 £000	2002 £000
Raw materials	**8,221**	6,960
Work in progress	**3,732**	3,187
Finished goods	**20,145**	13,940
	32,098	24,087

15 Debtors

	Due within one year £000	Due after one year £000	2003 Total £000	Due within one year £000	Due after one year £000	2002 Total £000
Group						
Trade debtors	**38,534**	**–**	**38,534**	32,853	–	32,853
Other debtors and prepayments	**3,791**	**5,746**	**9,537**	3,931	5,652	9,583
UK taxation recoverable	**636**	**–**	**636**	1,294	–	1,294
Overseas taxation recoverable	**356**	**–**	**356**	1,367	–	1,367
	43,317	**5,746**	**49,063**	39,445	5,652	45,097
Company						
Amounts owed by subsidiaries	**82,741**	**–**	**82,741**	64,405	–	64,405
Other debtors and prepayments	**301**	**5,728**	**6,029**	428	5,640	6,068
UK taxation recoverable	**–**	**–**	**–**	1,647	–	1,647
	83,042	**5,728**	**88,770**	66,480	5,640	72,120

Notes to the accounts continued

16 Creditors

	2003 Due within one year £000	2003 Due after one year £000	2002 Due within one year £000	2002 Due after one year £000
Group				
Bank loans and overdrafts (note 17)	**5,049**	**12,427**	8,030	3,870
Trade creditors	**22,208**	**–**	18,768	–
Bills of exchange payable	**463**	**–**	283	–
Social security and other taxes	**4,521**	**–**	3,786	–
UK taxation payable	**3,085**	**–**	2,649	–
Overseas taxation payable	**2,231**	**–**	2,290	–
Other creditors and accruals	**14,706**	**2,979**	11,125	2,322
Proposed dividends	**2,698**	**–**	1,504	–
Finance leases	**161**	**82**	–	–
Other creditors	**50,073**	**3,061**	40,405	2,322
Total creditors	**55,122**	**15,488**	48,435	6,192
Due within five years		**14,957**		5,621
Due after five years		**531**		571
		15,488		6,192

Included within Group other creditors and accruals due within one year are government grants of £126,000 (2002: £68,000), an environmental accrual of £410,000 (2002: £734,000, note 27) and an accrual for onerous leases of £360,000 (2002: £433,000). Included within Group other creditors and accruals due after one year are government grants of £223,000 (2002: £224,000).

	2003 Due within one year £000	2003 Due after one year £000	2002 Due within one year £000	2002 Due after one year £000
Company				
Bank loans and overdrafts	**12,463**	**9,750**	6,074	–
Amounts owed to subsidiaries	**39,176**	**–**	41,361	–
Social security and other taxes	**50**	**–**	41	–
UK taxation payable	**624**	**–**	–	–
Other creditors and accruals	**1,519**	**–**	1,232	–
Proposed dividends	**2,698**	**–**	1,504	–
Other creditors	**44,067**	**–**	44,138	–
Total creditors	**56,530**	**9,750**	50,212	–
Due within five years		**9,750**		–
Due after five years		**–**		–
		9,750		–

17 Financial instruments

The information in this note should be read in conjunction with page 15 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). Full comparative information has not been given where this is impractical.

i) Financial liabilities

The profile of the financial liabilities was as follows:

	Borrowings			
	2003 Under one year £000	**2003 Over one year £000**	2002 Under one year £000	2002 Over one year £000
Currency				
Sterling	**3,160**	**9,750**	–	–
Euro	**1,581**	**2,677**	7,792	3,870
Canadian dollar	**308**	**–**	238	–
	5,049	**12,427**	8,030	3,870

ii) Financial assets

The Group held the following financial assets:

	2003 £000	2002 £000
Interest bearing:		
Sterling cash	**13**	4,083
Sterling deposits	**7,000**	13,800
Euro cash	**17,785**	10,219
US dollar cash	**2,066**	841
Other currencies cash	**998**	1,188
	27,862	30,131

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 currency borrowings of £4,180,000 (2002: £5,230,000) with a weighted average interest rate of 5.80% and a weighted average period of 1.91 years (2002: 2.40 years), are at floating rates, with interest rates set between one day and twelve months by reference to the benchmark rate for the relevant currency, Libor in sterling and its equivalent for other currencies.

iv) Maturity of borrowings

	2003 £000	2002 £000
Within one year	**5,049**	8,030
Between one and two years	**4,536**	1,384
Between two and five years	**7,891**	2,486
	17,476	11,900

Notes to the accounts continued

17 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:

	2003 £000	2002 £000
Expiring within one year	**11,386**	43,926
Expiring after two years	**15,000**	–
	26,386	43,926

vi) Currency risk
After taking account of forward currency 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 15, the Group's policy is to partially hedge overseas assets using overseas borrowings. The exchange movement on the net assets of overseas subsidiaries less the movement on the related borrowings is recognised through the exchange reserve each year.

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

ix) Preference shares

	2003 Book value £000	**2003 Fair value £000**	2002 Book value £000	2002 Fair value £000
6% first cumulative preference stock	**100**	**83**	100	83
6% second cumulative preference stock	**100**	**98**	100	98
5.5% third cumulative preference stock	**200**	**156**	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.

18 Provisions for liabilities and charges

	Accelerated capital allowances £000	Other timing differences £000	Total £000
Group			
Deferred taxation:			
At 1 December 2002	5,204	–	5,204
Exchange adjustment	122	–	122
Transfer to profit and loss account	(692)	–	(692)
At 30 November 2003	**4,634**	**–**	**4,634**

As at the year end unprovided deferred tax assets principally relating to prior year losses are £8,171,000 (2002: £12,580,000). Any short-term timing differences in the Group are offset by losses carried forward.

19 Share capital

	2003 £000	2002 £000
Authorised		
100,000 (2002: 100,000) 6% first cumulative preference stock of £1.00 each	**100**	100
100,000 (2002: 100,000) 6% second cumulative preference stock of £1.00 each	**100**	100
200,000 (2002: 200,000) 5.5% third cumulative preference stock of £1.00 each	**200**	200
132,000,000 (2002: 132,000,000) ordinary shares of 50p each	**66,000**	66,000
	66,400	66,400
Allotted, called up and fully paid		
Non-equity:		
6% first cumulative preference stock	**100**	100
6% second cumulative preference stock	**100**	100
5.5% third cumulative preference stock	**200**	200
	400	400
Equity:		
99,474,690 ordinary shares of 50p each	**49,737**	49,737
	50,137	50,137

Preference shares have priority over ordinary shares on 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, no ordinary shares of 50p each were allotted.

Share option schemes

1 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. 14,535 options lapsed during the year.
The following options were outstanding at 30 November 2003:

Number of shares	Exercise price per share p	Dates exercisable
5,046	210 to 421	2003 to 2005

2 The Low & Bonar 1997 Sharesave Scheme
No options were exercised during the year under review. 275,430 options lapsed during the year.
656,661 options were granted during the year under review.
The following options were outstanding at 30 November 2003:

Number of shares	Exercise price per share p	Dates exercisable
1,921,329	51 to 278	2003 to 2010

3 The Low & Bonar 1994 (No.1) Management Share Option Scheme
No options were granted during the year under review.
No options were exercised during the year. No options lapsed during the year.
The following options were outstanding at 30 November 2003:

Number of shares	Exercise price per share p	Dates exercisable
6,900	429	2003 to 2007

Notes to the accounts continued

19 Share capital continued

4 The Low & Bonar 1994 (No.2) Management Share Option Scheme
No options were granted during the year under review.
No options were exercised during the year. No options lapsed during the year.
The following options were outstanding at 30 November 2003:

Number of shares	Exercise price per share p	Dates exercisable
104,100	318.5 to 522.5	2003 to 2008

5 The Low & Bonar Senior Executive Long-Term Incentive Plan Awards
Awards held by executives at 30 November 2003 under the Low & Bonar 1999 Senior Executive Long-Term Incentive Plan ("the 1999 Plan") were:

Shares awarded	Award price p	Date at which releasable
592,340	96	28/03/04

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. No awards were made under the 1999 Plan during the year. No further awards will be made under the 1999 Plan. A total of 772,749 award shares lapsed during the year. The outstanding share awards of 592,340 will lapse on 28 March 2004 as the performance condition has not been met.

6 Long-term incentive arrangement
The following award was made under a long-term incentive arrangement to a director on 30 September 2002. The award lapsed on 28 March 2003. Further details are provided in the Directors' Report on Remuneration on page 31.

Shares awarded	Award price p	Shares lapsed during the year	Award shares outstanding on 30/11/03
593,667	75.8	593,667	–

7 The Low & Bonar 2003 Long-Term Incentive Plan Awards
Awards held by executives at 30 November 2003 under the Low & Bonar 2003 Long-Term Incentive Plan ("the 2003 Plan") were:

Date of award	Shares awarded	Award price p	Date at which releasable
28/03/2003	1,544,024	53.64	28/03/2006
11/07/2003	357,101	53.64	11/07/2006

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 27.

20 Reserves

	Group £000	Company £000
Share premium account		
At 1 December 2002 and 30 November 2003	**60,424**	**60,424**
Exchange reserve		
At 1 December 2002	(9,453)	–
Adjustment on translation of currency loans to fund overseas investments	(498)	–
Adjustment on translation of net assets and results of overseas subsidiaries	3,642	–
Transfer on repayment of currency loans to fund overseas investments	324	–
At 30 November 2003	**(5,985)**	**–**
Profit and loss account		
At 1 December 2002	(4,169)	11,878
Profit/(loss) for the year	1,840	(6,563)
Transfer from exchange reserve	(324)	–
Credit in respect of Long-Term Incentive Plan	450	450
At 30 November 2003	**(2,203)**	**5,765**

The goodwill written off directly to reserves in prior years was £44,093,000 (2002: £44,093,000).

	2003 Company £000	2002 Company £000
Company reconciliation of shareholders' funds		
(Loss)/profit for the financial year	**(2,362)**	3,687
Dividends	**(4,201)**	(4,002)
Loss for the year	**(6,563)**	(315)
Other recognised gains and losses	**–**	–
Credit in respect of Long-Term Incentive Plan	**450**	–
Net decrease in shareholders' funds	**(6,113)**	(315)
Shareholders' funds at start of the year	**122,439**	122,754
Shareholders' funds at end of the year	**116,326**	122,439

21 Net cash inflow from operating activities

	2003 £000	2002 £000
Operating profit	**10,145**	6,374
Depreciation	**8,733**	7,738
Amortisation	**397**	–
Write back of government grants	**(83)**	(68)
(Increase)/decrease in stocks	**(1,802)**	1,175
Increase in debtors	**(1,471)**	(2,692)
Increase/(decrease) in creditors	**3,507**	(1,395)
	19,426	11,132

Notes to the accounts continued

22 Acquisition

On 21 February 2003, the Group purchased the trade and assets of the carpet tile division of Gaskell Plc. The purchase consideration, including fees and costs of £1,546,000 associated with the acquisition, amounted to £19,326,000. The purchase consideration was fully paid in cash during the period. There is no deferred consideration.

	Book value £000	Fair value adjustments £000	Fair value £000
Fixed assets	4,476	232	4,708
Stock	6,056	(152)	5,904
Debtors	3,877	(80)	3,797
Creditors	(5,330)	–	(5,330)
Net assets acquired	9,079	–	9,079
Purchase consideration, including costs	19,326		19,326
Goodwill arising on acquisition (see note 11)	10,247		10,247

Purchased goodwill is capitalised on the balance sheet and will be 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.

The fair value adjustments are as follows:

Fixed assets Land and buildings have been upwardly revalued by £232,000 to a directors' valuation.

Stock Inventories have been revalued by £152,000, representing alignment of accounting bases for inventory obsolescence.

Debtors Other debtors have been decreased by £80,000 reflecting an alignment of timing policies for the recognition of sundry income and purchase rebates.

23 Disposal of subsidiary

	2003 £000	2002 £000
Fixed assets	**–**	249
Working capital	**–**	708
Net external borrowings	**–**	(243)
	–	714
Proceeds of disposal, less costs	**–**	90
Deferred consideration	**–**	95
Loss on disposal before goodwill written back	**–**	(529)
Goodwill written back on disposal	**–**	(1,154)
Loss on disposal	**–**	(1,683)
Proceeds of disposal, less costs	**39**	90
Net external borrowings disposed of	**–**	243
Net cash inflow	**39**	333

The Group disposed of its Italian Plastics subsidiary, Spila Srl, on 31 July 2002. Initial purchase consideration (net of costs), of £90,000 was received in the year ended 30 November 2002. Deferred cash consideration of £39,000 was received during the year ended 30 November 2003.

24 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 2001	14,537	43,800	(37,748)	(5,731)	14,858
Cash flow	1,663	(30,000)	29,719	1,967	3,349
Exchange rate fluctuations	131	–	(1)	(106)	24
At 1 December 2002	16,331	13,800	(8,030)	(3,870)	18,231
Cash flow	3,524	(6,800)	3,329	(8,478)	(8,425)
Exchange rate fluctuations	1,007	–	(348)	(79)	580
At 30 November 2003	**20,862**	**7,000**	**(5,049)**	**(12,427)**	**10,386**

	2003 Cash £000	2002 Cash £000
Per balance sheet	**27,862**	30,131
Short-term bank deposits included	**(7,000)**	(13,800)
As above	**20,862**	16,331

25 Pensions

The Group operates a number of pension schemes in the UK and overseas.

The overseas schemes are defined contribution schemes with the exception of Belgium which is a defined benefit scheme. The Belgian defined benefit scheme is not material to the Group.

The UK defined benefit scheme was independently valued by a qualified actuary at 31 March 2002. The main assumption in carrying out the valuation was for investment returns to exceed earnings increases by 2.25%. At 31 March 2002 the total market value of assets in the UK scheme was £118.6m. The overall level of funding was 102%. The charge for the year of the UK pension scheme was £1.3m.

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 will pay £2,080,000 per calendar year. Payments started in May 2003.

A prepayment of £5,728,000 (2002: £5,640,000), included in debtors due after one year, is the cumulative excess of contributions paid over the SSAP 24 pension cost.

FRS 17 disclosures The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. Under the deferred accounting standard FRS 17, the following disclosures are included and specifically show the impact on the Balance Sheet of the new standard should it be adopted.

The results of applying FRS 17 show a significant deficit.

The Company has taken the multi-employer exemption with relation to the Group Pension Scheme.

A full actuarial valuation was carried out at 31 March 2002 and updated to 30 November 2003 by a qualified independent actuary.

Notes to the accounts continued

25 Pensions continued

The major assumptions used by the actuary were:

	At 30 November 2003	At 30 November 2002	At 30 November 2001
Rate of increase in salaries	**4.00%**	3.75%	3.25%
Rate of increase of pensions in payment	**2.50%**	2.25%	2.25%
Discount rate	**5.50%**	5.75%	5.50%
Inflation assumption	**2.50%**	2.25%	2.25%

The assets in the scheme and the expected rates of return (before deduction for expenses) were:

	2003 %	**2003 £000**	2002 %	2002 £000	2001 %	2001 £000
Equities	**8.00**	**78,490**	7.75	75,602	7.50	99,963
Bonds	**5.25**	**19,990**	4.75	19,958	4.50	24,925
Others	**5.00**	**2,343**	4.75	1,044	4.50	7,232
Total market value of assets		**100,823**		96,604		132,120
Actuarial value of liability		**(132,720)**		(122,974)		(136,810)
Deficit in the scheme		**(31,897)**		(26,370)		(4,690)
Related deferred tax asset		**9,569**		7,911		1,407
Net pension liability		**(22,328)**		(18,459)		(3,283)

Analysis of the amount charged to operating profit:

	2003 £000	2002 £000
Current service cost	**768**	829
Total operating charge	**768**	829

Analysis of amount credited to other finance income:

	2003 £000	2002 £000
Expected return on pension scheme assets	**6,309**	8,249
Interest on pension liabilities	**(6,918)**	(7,400)
Net return	**(609)**	849

25 Pensions continued

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

The actual return less expected return on assets was a gain of £2,737,000 (representing 2.7% of year end scheme assets) (2002: loss of £38,522,000). The experience gains and losses on liabilities was a loss of £373,000 (representing 0.3% of year end scheme liabilities) (2002: gain of £13,247,000). The effect of changes in assumptions resulted in a loss of £7,791,000 (2002: gain of £3,445,000). Consequently the net loss recognised is £5,427,000 (representing 4.1% of year end present value of scheme liabilities) (2002: loss of £21,830,000).

	2003 £000	2002 £000
Actual return less expected return on assets	**2,737**	(38,522)
Experience gains and losses on liabilities	**(373)**	13,247
Changes in assumptions	**(7,791)**	3,445
Actuarial loss recognised	**(5,427)**	(21,830)

Movement in deficit during the year:

	2003 £000	2002 £000
Deficit in scheme at the beginning of the year	**(26,370)**	(4,690)
Movement in year:		
Current service cost	**(768)**	(829)
Contributions	**1,277**	130
Net return on assets	**(609)**	849
Actuarial loss	**(5,427)**	(21,830)
Deficit in scheme at the end of the year	**(31,897)**	(26,370)

The actuarial review at 30 November 2003 showed an increase in the deficit from £26.4m to £31.9m.

Balance Sheet presentation:

	2003 £000	2002 £000	2001 Restated £000
Net assets at 30 November	**102,373**	96,939	98,164
Less pension prepayment	**(5,728)**	(5,640)	(5,853)
Net assets excluding pension liability	**96,645**	91,299	92,311
Pension liability	**(22,328)**	(18,459)	(3,283)
Net assets including FRS 17 pension liability	**74,317**	72,840	89,028

Profit and loss reserve:

	2003 £000	2002 £000	2001 Restated £000
Profit and loss reserve at 30 November	**(2,203)**	(4,169)	(4,577)
Less pension prepayment	**(5,728)**	(5,640)	(5,853)
	(7,931)	(9,809)	(10,430)
Pension liability	**(22,328)**	(18,459)	(3,283)
Profit and loss reserve after inclusion of pension liability under FRS 17	**(30,259)**	(28,268)	(13,713)

Notes to the accounts continued

26 Commitments under operating leases

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Plant				
Amount payable next year where lease expires:				
Within one year	**597**	391	**5**	5
Within two to five years	**1,136**	876	**10**	5
After five years	**3**	–	**–**	–
	1,736	1,267	**15**	10
Buildings				
Amount payable next year where lease expires:				
Within one year	**262**	202	**–**	–
Within two to five years	**538**	435	**80**	–
After five years	**125**	150	**–**	–
	925	787	**80**	–

27 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 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$64m. The environmental agreement expires in September 2006. At 30 November 2003, an accrual of £410,000 (2002: £734,000) 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.

28 Rates of exchange

	2003 Average to the £	**2003 Year end to the £**	2002 Average to the £	2002 Year end to the £
The rates of exchange used were as follows:				
Canadian dollar	**2.32**	**2.24**	2.34	2.44
US dollar	**1.63**	**1.72**	1.49	1.56
Danish krone	**10.85**	**10.68**	11.87	11.62
Euro	**1.46**	**1.44**	1.60	1.56
Polish zloty	**6.37**	**6.72**	6.09	6.26

Principal Group companies
at 30 November 2003

Subsidiary undertakings	Principal product areas	Country	%
Floors			
Bonar Floors Limited	Floorcoverings	Scotland	*100
Bonar Floors SAS	Floorcoverings	France	100
Bonar Floors GmbH	Floorcoverings	Germany	100
Bonar Floors NV	Floorcoverings	Netherlands	100
Bonar Floors Ltd	Floorcoverings	Hong Kong	100
Bonar Tiles Limited	Carpet tiles	England	100
Yarns & Fabrics			
Bonar Yarns & Fabrics Limited	Polypropylene products	Scotland	*100
Bonar Technical Fabrics NV	Polypropylene products	Belgium	100
North European Plastics			
Bonar Plastics A/S	Rotationally moulded plastics	Denmark	100
Bonar Plastics GmbH	Rotationally moulded plastics	Germany	100
Bonar Plastics Polska Sp.z o.o	Rotationally moulded plastics	Poland	100
Bonar Plastics BV	Rotationally moulded plastics	Netherlands	100
South European Plastics			
Anisa SAS	Rotationally moulded plastics	France	100
Franca Rotomoulage SAS	Rotationally moulded plastics	France	100
Sonabat Chantal SAS	Rotationally moulded plastics	France	100
Chantal Eurl	Injection vacuum formed plastics	France	100
Bonar Plastics SA	Rotationally moulded plastics	Spain	100
North American Plastics			
Bonar Plastics Corporation	Rotationally moulded plastics	Canada	100
Bonar Plastics Inc	Rotationally moulded plastics	USA	100
Holding companies			
Bonar International Holdings Limited	Holding company	Scotland	*100
Bonar International Sarl	Holding company	Luxembourg	100
Low & Bonar Nederland BV	Holding company	Netherlands	100
Bonar Corporation	Holding company	USA	100
Bonar Tiles Holdings Limited	Holding company	England	*100

Notes

1 Unless otherwise stated, shares held are ordinary, common or unclassified.
2 The percentage of the nominal value of issued shares held is shown following the name of each company.
3 *An asterisk indicates that the percentage of share capital shown is held directly by Low & Bonar PLC.
4 A number of subsidiary undertakings, the trading results and assets of which are not material in relation to the Group as a whole, have been omitted from the above list. In compliance with the Companies Act 1985, particulars of these undertakings will be annexed to the next annual return.
5 The companies listed were incorporated in the country shown against each of them and with the exception of Bonar Floors Limited, which operates mainly in England, that country is also the principal country of operation.

Notice of annual general meeting

Notice is hereby given that the ninety-second annual general meeting of Low & Bonar PLC ("the Company") will be held in the Thunderbolt Room, Paddington Hilton Hotel, 146 Praed Street, London W2 1EE on Wednesday 21 April 2004, at 12 noon, for the purpose of transacting the following business:

Ordinary Business

1 To receive the report and accounts for the year ended 30 November 2003 together with the reports of the directors and auditor.

2 To declare a final dividend of 2.70p per share on the ordinary shares of the Company payable on 28 April 2004 to shareholders on the register at the close of business on 2 April 2004.

3 To re-elect Mr R D Clegg as a director.

4 To re-appoint KPMG Audit Plc as auditor of the Company to hold office from the conclusion of the meeting until the next meeting at which accounts are laid.

5 To authorise the directors to determine the auditor's remuneration.

Special Business

6 To consider and, if thought fit, pass the following resolution as an ordinary resolution:

To approve the Directors' Report on Remuneration.

7 To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that Section) up to a maximum aggregate nominal value of £16,262,655 (32,525,310 shares), being approximately 33% of the ordinary share capital currently in issue, provided that this authority shall expire at the conclusion of the annual general meeting of the Company in 2005, but so that it shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after its expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred has expired.

8 To consider and, if thought fit, pass the following resolution as a special resolution:

That subject to the passing of resolution 7 above, the directors be and they are hereby generally and unconditionally authorised pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by that resolution as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

a) where the equity securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of ordinary shares on the register on a fixed date in proportion (as nearly as may be practicable) to their then respective holdings of such shares, but subject to such exclusions or other arrangements as the directors deem necessary or expedient in relation to fractional entitlements or any legal or practical requirements under the laws of any territory, or the requirements of any regulatory body, stock or investment exchange, in any territory; and

b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £2,486,867 (4,973,734 shares), being approximately 5% of the ordinary share capital currently in issue, and shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the annual general meeting of the Company in 2005 but so that it shall allow the Company to make offers or agreements before its expiry which would or might require equity securities to be allotted after its expiry and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the authority hereby conferred has expired.

9 To consider and, if thought fit, pass the following resolution as a special resolution:

That, pursuant to Article 14 of the Company's Articles of Association and in accordance with Section 166 of the Companies Act 1985, the Company be hereby generally and unconditionally authorised, during the period ending at the conclusion of the next annual general meeting of the Company after the passing of this resolution, to make market purchases (as defined in Section 163 of the Companies Act 1985) of the Company's ordinary shares, on such terms and in such manner as the directors may determine, provided that this authority shall:

i) be limited to a maximum of 9,947,000 ordinary shares, having a nominal value of £4,973,500, being approximately 10% of the ordinary share capital currently in issue;

ii) not permit the Company to pay less than 50p per share or more than 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the ordinary shares for the five business days immediately preceding the day of purchase (in each case exclusive of expenses); and

iii) permit the Company to make a purchase of its ordinary shares after the expiry of this authority if the contract of purchase was concluded before the authority expired.

By order of the Board
Amanda Whalley *Secretary*

Mimet House
5A Praed Street
London W2 1NJ

Registered office:
50 Castle Street
Dundee DD1 3RU

8 March 2004

Notes
1 A member of the Company entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a shareholder of the Company. To be effective, forms of proxy must be lodged at the offices of the Company's Registrar, Computershare Services PLC, PO Box 1075, Bristol BS99 3ZZ not less than 48 hours before the time of the meeting. Completion and return of the proxy will not prevent a shareholder of ordinary shares from attending the meeting and voting in person. Only ordinary shareholders are entitled to attend and vote at the annual general meeting.
2 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the Register of Members of the Company at 6.00 pm on 19 April 2004 or, in the event that the meeting is adjourned, in the Register of Members as at 6.00 pm on the day two days before the date of the adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the relevant register of members after 6.00 pm on 19 April 2004 or, in the event that the meeting is adjourned, in the register of members as at 6.00 pm on the day two days before the date of the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3 The register of interests and transactions of directors in the shares of the Company will be made available for inspection at the registered office of the Company during normal business hours up to and including the date of the annual general meeting and on that day at the meeting from 11.45 am until the conclusion of the meeting.

Five-year summary

	2003 £m	2002 £m	2001 Restated £m	2000 £m	1999 £m
Turnover	**191.7**	162.6	171.9	305.4	463.4
Operating profit before exceptional costs	**11.1**	7.7	10.0	21.4	40.7
Profit/(loss) before tax	**9.2**	4.5	(8.2)	(34.1)	28.2
Profit/(loss) after tax	**6.0**	2.1	(11.0)	(45.7)	20.1
Fixed assets	**68.6**	57.5	63.1	77.3	181.6
Other net assets	**23.4**	21.2	20.2	27.4	56.0
Net cash/(debt)	**10.4**	18.2	14.9	13.6	(134.4)
Net assets employed	**102.4**	96.9	98.2	118.3	103.2
Per 50p ordinary share					
Earnings before exceptional items	**6.69p**	4.88p	6.14p	11.54p	22.82p
Basic earnings per share	**6.05p**	2.08p	(11.35p)	(46.00p)	20.23p
Dividends per share	**4.20p**	4.00p	6.00p	6.00p	15.85p

Figures for years 2001 onwards include accounting for deferred tax in line with FRS 19 "Deferred Tax". It has not been practicable to restate comparative years 1999 to 2000.

Financial calendar

Annual general meeting	21 April 2004

Announcement of results
For the year ended 30 November 2004

Half year	July 2004
Year	February 2005

Dividend payments for the year ended 30 November 2003

Ordinary shares – interim	2 October 2003
Ordinary shares – final	28 April 2004
First, second and third cumulative preference stock	1 March, 1 September

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

Tel 020 7298 6820
Fax 020 7298 6821