

Low & Bonar

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Low and Bonar Interim report 2004

Specialist Materials

Floors



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

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
- **Tessera** – made in UK
High performance carpet tiles for stylish commercial interiors

Our markets

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

Specialist Materials

Yarns & Fabrics



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

Our businesses

- **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

Plastics



With twelve manufacturing sites in eight countries and substantial design experience, Bonar Plastics is well placed to meet its customers' needs for both standard products and custom designed solutions through rotational moulding of plastic.

Our products

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

Our markets

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

Interim statement

Chairman's statement

I am pleased to report that we have continued the encouraging progress that was initially made in 2003. Our pre-exceptional profit has improved to £6.2m from £5.2m, with Floors moving ahead by some 14% and Yarns & Fabrics more than doubling compared to the first half of 2003. The segmental analysis for Plastics shows that some limited progress in Europe was more than offset by a disappointing result in North America, primarily due to a combination of low customer demand and high raw material prices.

Turnover was £94.7m (2003: £89.4m). Exceptional costs of £0.2m relate to legal charges incurred in relation to an European Commission investigation. Profit before tax was £5.7m (2003: £4.3m) after an interest expense of £0.3m (2003: £0.3m). Earnings per share were 3.80p (2003: 2.87p) with a tax rate of 33.5% (2003: 34.0%). On a pre-exceptional basis earnings per share were 3.91p (2003: 3.28p). It is pleasing to note that a positive Group net cash position of £5.8m has been achieved, enabling funds to be available for appropriate investments and acquisitions.

The directors have declared an interim ordinary dividend of 1.6p per share, an increase of 7% over 2003 (1.5p per share), which will be paid on 4 October 2004 to ordinary shareholders on the register on 10 September 2004.

Duncan Clegg *Chairman*

Chief Executive's review of operations

Flooring The combination of sales and profit growth in our original Flooring business, allied to a full six-month contribution from Tessera, the former Gaskell carpet tile business, meant that last year's progress was maintained. Including the acquisition, operating profit grew to £5.6m (2003: £5.0m) and sales grew to £38.4m (2003: £33.0m), thereby maintaining operating margins at a strong 14.7%.

Areas of particular strength in sales versus last year were France, our export business serving areas outside Europe, and Tessera. As well as the cost savings from the acquisition being achieved in line with expectations, we are beginning to see new sales of carpet tiles in markets as diverse as Australia, Spain and Russia. The second-half sales in the UK will be buoyed by the commencement of the MoD contract, although set-up costs will nullify any meaningful profit contribution in 2004.

Work on our logistics and manufacturing processes is continuing to good effect with demonstrable progress in customer availability and unit production costs. The new management team remains confident of sustaining the progress made.

Yarns & Fabrics Yarns & Fabrics made strong progress in both the Dundee yarn business and the Belgian technical fabrics business. The main factor behind Dundee's growth remains the continued strong demand for its artificial grass product. In the case of our Belgian business, strong performances in our non-woven fabrics and industrial fabrics, together with additional new business streams in fibres, ensured very good sales growth despite continued tough market conditions.

Interim statement continued

The impact of this revenue growth, continued good work on cost efficiency improvements, and lower raw material prices than in the similar period of 2003, was that profit doubled from £1.1m in the first half of 2003 to £2.3m currently. Operating profit margins grew from 4.7% to 8.7% as a result. Looking ahead, raw material prices are expected to remain at current levels in the next few months compared with their traditional seasonal reduction.

Plastics European Plastics moved profit forward slightly by £0.1m, mainly as a result of the progress in North European Plastics. This region, our most stable and well established in Plastics, increased operating margin from 3.6% to 4.3% through tighter cost control and increasing use of the Polish manufacturing operation. The Southern European business remained at a roughly breakeven level with continued progress in France offset by a sales-driven weakening in our small Spanish subsidiary. Both the Southern European businesses have found their trading environments very challenging, with the French chemical distribution market proving especially problematic.

Bonar Plastics North America made progress on the second half of 2003, although it saw a decline in profitability against the comparable period in 2003. A major factor was raw material pricing, which had an impact of £0.2m versus the first half of 2003. The challenge remains to increase prices where competitive conditions allow and to sustain the progress on sales, especially in material handling.

Steve Good, the Divisional Managing Director appointed in March 2004, is developing the commercial programme required to build on the progress made in the Division during the last 18 months.

European Commission update

As we announced on 10 May 2004, the Group is one of a number of groups which have received a statement of objection from the European Commission investigating allegations of a cartel relating to industrial bags, a market which the Group exited in 1997 following the sale of its Belgian packaging business to BPI. The turnover of the Belgian packaging business in 1997 was c£17m of which industrial bags was only a part. We are continuing to co-operate fully with the Commission in its enquiry.

Outlook

We anticipate continued progress through volume-based market share gain and cost reduction action rather than by underlying market growth or significant pricing increases. With the exception of specific markets like grass yarns, or known new contract wins like the MoD, we are not anticipating helpful market conditions, nor are we expecting significantly easing raw material prices. Nonetheless we remain confident that the continued progress will be sustained in the second half of the year.

Paul Forman *Group Chief Executive*
7 July 2004

Unaudited consolidated profit and loss account

for the half year ended 31 May 2004

	Notes	Six months ended 31 May 2004 £000	Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000
Turnover		94,679	89,369	191,704
Operating profit before amortisation and exceptional costs		6,474	5,316	11,467
Amortisation of goodwill		(251)	(138)	(397)
Operating profit before exceptional costs		6,223	5,178	11,070
Exceptional operating costs	5			
EC investigation – legal costs		(175)	–	–
restructuring costs		–	(308)	(434)
integration costs		–	(274)	(491)
Operating profit		6,048	4,596	10,145
Net interest payable		(348)	(254)	(953)
Profit on ordinary activities before taxation		5,700	4,342	9,192
Taxation		(1,912)	(1,475)	(3,151)
Profit on ordinary activities after taxation		3,788	2,867	6,041
Dividends:				
Preference		(11)	(11)	(23)
Ordinary		(1,592)	(1,492)	(4,178)
Transferred to reserves		2,185	1,364	1,840
Ordinary dividend per share		1.60p	1.50p	4.20p
Earnings per share before exceptional items		3.91p	3.28p	6.69p
Basic earnings per share		3.80p	2.87p	6.05p
Fully diluted earnings per share		3.77p	2.87p	6.04p

Summary unaudited Group balance sheet

at 31 May 2004

	31 May 2004 £000	31 May 2003 £000	30 Nov 2003 £000
Fixed assets			
Tangible assets	55,471	62,923	58,744
Goodwill	9,595	10,071	9,850
	65,066	72,994	68,594
Working capital			
Stocks	34,277	34,898	32,098
Debtors	49,880	51,864	48,071
Creditors	(44,553)	(47,112)	(45,120)
	39,604	39,650	35,049
Net cash	5,796	883	10,386
Tax, dividends and other liabilities	(9,818)	(9,929)	(11,656)
	100,648	103,598	102,373
Capital and reserves			
Share capital	50,139	50,137	50,137
Reserves	50,509	53,461	52,236
	100,648	103,598	102,373

Summary unaudited consolidated cash flow statement

for the half year ended 31 May 2004

	Notes	Six months ended 31 May 2004 £000	Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000
Net cash inflow from operating activities	6	4,020	4,223	19,426
Net interest paid		(529)	(219)	(523)
Non-equity dividends paid		(11)	(11)	(23)
Returns on investment and servicing of finance		(540)	(230)	(546)
Tax paid		(2,106)	(921)	(1,949)
Purchase of tangible fixed assets		(3,019)	(2,068)	(3,892)
Sale of tangible fixed assets		518	443	667
Receipt of government grants		–	140	140
Capital expenditure		(2,501)	(1,485)	(3,085)
Acquisitions and disposals		24	(18,318)	(19,287)
Equity dividends paid		(2,687)	(1,492)	(2,984)
Net cash outflow before management of liquid resources and financing		(3,790)	(18,223)	(8,425)
Management of liquid resources				
Decrease in short-term deposits		2,272	4,000	6,800
Financing				
Issue of ordinary share capital		3	–	–
Repayment of loans		(2,226)	(7,426)	5,149
(Decrease)/increase in cash		(3,741)	(21,649)	3,524
Reconciliation of net cash				
Opening net cash		10,386	18,231	18,231
Exchange		(803)	875	580
Net cash outflow		(3,787)	(18,223)	(8,425)
Closing net cash		5,796	883	10,386

Consolidated statement of total recognised gains and losses

for the half year ended 31 May 2004

	Six months ended 31 May 2004 £000	Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000
Profit for the period	3,788	2,867	6,041
Currency translation differences on overseas net investments and related borrowings	(4,055)	5,295	3,144
Total recognised gains and losses for the financial period	(267)	8,162	9,185

Reconciliation of movements in consolidated shareholders' funds

for the half year ended 31 May 2004

	Six months ended 31 May 2004 £000	Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000
Profit for the period	3,788	2,867	6,041
Dividends	(1,603)	(1,503)	(4,201)
Result for period	2,185	1,364	1,840
Ordinary shares issued	3	–	–
Other recognised gains and losses relating to the period	(4,055)	5,295	3,144
Long Term Incentive Plan Charge	142	–	450
Net (decrease)/increase in shareholders' funds	(1,725)	6,659	5,434
Shareholders' funds at start	102,373	96,939	96,939
Shareholders' funds at end	100,648	103,598	102,373

Segmental information

for the half year ended 31 May 2004

	Six months ended 31 May 2004 £000	Turnover Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000	Six months ended 31 May 2004 £000	Profit Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000
Classes of business						
Floors	38,409	33,021	75,334	5,630	4,955	10,716
Yarns & Fabrics	26,310	23,393	53,326	2,295	1,093	3,523
Total Specialist Materials	64,719	56,414	128,660	7,925	6,048	14,239
North European Plastics	11,341	11,580	23,257	482	419	926
South European Plastics	8,249	9,904	18,126	(134)	(138)	(295)
North American Plastics	10,370	11,471	21,661	55	645	537
Total Plastics	29,960	32,955	63,044	403	926	1,168
	94,679	89,369	191,704	8,328	6,974	15,407
Central costs				(2,105)	(1,796)	(4,337)
Pre-exceptional operating profit				6,223	5,178	11,070
Exceptional operating costs				(175)	(582)	(925)
Operating profit				6,048	4,596	10,145
Net interest payable				(348)	(254)	(953)
Profit on ordinary activities before taxation				5,700	4,342	9,192
Geographical segments						
United Kingdom	31,654	25,703	60,559	4,239	4,439	9,225
Continental Europe	52,655	52,195	109,484	4,034	1,890	5,654
North America	10,370	11,471	21,661	55	645	528
	94,679	89,369	191,704	8,328	6,974	15,407
Central costs				(2,105)	(1,796)	(4,337)
Pre-exceptional operating profit				6,223	5,178	11,070
Exceptional operating costs				(175)	(582)	(925)
Operating profit				6,048	4,596	10,145
Net interest payable				(348)	(254)	(953)
Profit on ordinary activities before taxation				5,700	4,342	9,192

Notes on interim report 2004

- 1 This interim report has been prepared on the basis of the accounting policies set out in the annual report for the year ended 30 November 2003.
- 2 This interim report was approved by the Board of Directors on 7 July 2004.
- 3 Taxation on the operating profit after interest before exceptional items has been provided at a rate of 33.5% for the six months ended 31 May 2004 (2003: 34.0%) which is the estimated rate of tax for the full year.
- 4 Basic and pre exceptional earnings per share are based on the weighted average of ordinary shares in issue during the half year of 99,476,439 (2003: 99,474,690). The calculation of fully diluted earnings per share is based on the weighted average of ordinary shares in issue plus the dilutive effect of the Low & Bonar 1997 Sharesave Scheme being 705,820 shares.

5 Exceptional items

	Six months ended 31 May 2004 £000	Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000
EC investigation – legal costs	(175)	–	–
Floors European restructuring	–	(308)	(434)
Carpet tiles integration costs	–	(274)	(491)
	(175)	(582)	(925)

The Group has received notification from the European Commission of an investigation into alleged anti-competitive practices in the European industrial bag market, a market that the Group exited in 1997. The exceptional costs relate to the legal costs of the Group addressing this matter.

6 Net cash inflow from operating activities

	Six months ended 31 May 2004 £000	Six months ended 31 May 2003 £000	Year ended 30 Nov 2003 £000
Operating profit	6,048	4,596	10,145
Depreciation and amortisation	4,046	4,053	9,130
Write-back of government grants	(30)	(42)	(83)
(Increase)/decrease in working capital	(6,044)	(4,384)	234
	4,020	4,223	19,426

- 7 The comparative figures for the financial year ended 30 November 2003 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

