Low & Bonar PLC

17 February 2005

Press Release/Stock Exchange Announcement

LOW & BONAR PLC 2004 PRELIMINARY RESULTS

Low & Bonar PLC today reported its results for the year ended 30 November 2004.

	2004	2003	
Turnover	£201.7m	£191.7m	5%
Operating profit before exceptionals	£12.1m	£11.1m	9%
PBT pre-exceptionals and amortisation	£12.0m	£10.5m	14%
PBT	£10.9m	£9.2m	19%
Earnings per share pre-exceptionals and amortisation	8.13p	6.97p	17%
Earnings per share pre-exceptionals	7.72p	6.69p	15%
Dividend per share	4.50p	4.20p	7%

Highlights

- Turnover up 5% to £201.7m
- Group PBT* up by 14% from £10.5m to £12.0m
- EPS* rose by 17% to 8.13p
- Increased dividend for the year of 7% to 4.50p
- Strong operating cashflow resulted in year end net cash balance of £15m after the investment in Yihua Bonar
- Ongoing performance improvements across all Divisions:
    - Our original Floors business reported sales growth for the first time in five years and achieved good margins
    - Yarns & Fabrics grew operating profit by over 50%
    - Plastics made good progress with its recovery programme and in the second half enjoyed its best collective six month operating profit margin performance for at least 3 years

- Acquisition of ADFIL in December 2004 will be earnings accretive in the current year.

* pre-exceptionals and amortisation

Commenting on the results, Duncan Clegg, Chairman of Low & Bonar, said:

"I am pleased to report that 2004 continued the Group's progress started in 2003, particularly against a demanding backdrop of escalating raw material prices and subdued markets. Our pre-exceptional earnings per share growth of 15% represents another encouraging step towards more acceptable profitability levels. Looking ahead, although we expect the first half to be impacted by growth-related investments and continued high raw material pricing, our expectations are for continued progress in 2005."

Commenting on the results Paul Forman, Chief Executive of Low & Bonar, said:

"It is encouraging to report on another year of significant growth at Low & Bonar. Many of our businesses are beginning to demonstrate the capability to grow organically and this is being supported by additional investment to achieve our clearly identified growth plans. Equally our control on operating costs has enabled us to increase Group operating margin even at a time of high raw material prices. Furthermore the year end net cash balance of £15m underlines the Group's strong cash generation capabilities. The two recent acquisitions in Yarns & Fabrics underline our commitment to pursue value-adding and strategically appropriate acquisitions in Floors and Yarns & Fabrics. I am confident that our progress will continue in 2005, that we will expand organically and via acquisition, and that we will build on the operational recovery of the last two years."

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Overview from Duncan Clegg, Chairman

I am pleased to report that 2004 continued the Group's progress started in 2003. Our pre-exceptional earnings per share growth of 15% represents another encouraging step towards more acceptable profitability levels, especially in the context of the twin challenges of high raw material prices and subdued market demand. Within this positive overall achievement specific highlights include the level of organic sales growth being achieved in much of the Group, our continued control of operating costs, and the strong performance on managing cash flow. This progress is being underpinned by the further strengthening of our management team. Our Yarns & Fabrics Division acquired Yihua Bonar during the year and ADFIL shortly after the year end and both of these will be earnings enhancing in the current year. We will continue our focus on growing organically and through acquisitions, making necessary investments in marketing and product development to build our capabilities for sustaining growth in the longer term, whilst also driving short-term profitability

Financial Performance

Turnover increased to £201.7m (2003: £191.7m), reflecting the contribution of Yihua Bonar from July 2004, as well as stronger organic growth. Operating profits before exceptional costs increased to £12.1m compared with £11.1m the previous year. This is after deducting a goodwill amortisation charge of £0.6m (2003: £0.4m). Exceptional costs of £0.4m were incurred relating to legal fees in connection with the Group's defence against an alleged infringement of European Union anti-competitive laws by a business disposed of in 1997.

Profit before tax was £10.9m (2003: £9.2m). Earnings per share before exceptional items were 7.72p (2003: 6.69p). Profit after tax, but before minority interests, grew to £7.5m (2003: £6.0m). Basic earnings per share were 7.43p (2003: 6.05p).

Strong cash flow from operating activities of £21.4m aided the achievement of a year end net cash balance of £15.0m, despite more than £2m being spent on our acquisition of Yihua Bonar. The acquisition of ADFIL in December 2004 consumed a further £10m of this cash.

Dividends

The Board is recommending a final ordinary dividend of 2.90p (2003: 2.70p) payable on 27 April 2005 to shareholders on the register on 1 April 2005, making a total ordinary dividend for the year of 4.50p (2003: 4.20p). This is consistent with our stated policy of increasing dividends prudently until an acceptable level of cover has been established. The dividend for 2004 is 1.72 times covered by pre-exceptional earnings per share.

European Commission update

As previously announced, the Group is one of a number of groups which has received a statement of objections 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 British Polythene Industries PLC. The turnover of the Belgian packaging business in 1997 was approximately £17m of which industrial bags was a minority. The Company attended the oral hearing of the European Commission in July 2004; a decision is expected during 2005.

Group Chief Executive's review

Floors

Divisional turnover increased by 10% to £83.1m in 2004 (£75.3m: 2003), including a sales benefit of £4.2m from the full year contribution of Tessera, our carpet tile business. Of this growth £3.4m arose from the new MoD contract that was awarded in March 2004 but which started operationally in the second half of the year. Divisional operating profit declined to £9.7m (2003: £10.7m). Specific contributory factors, primarily in Tessera, will be non-recurring. Operating margins remained strong at 12% (2003: 14%) and return on net operating assets was also healthy at 26% (2003: 27%).

Further progress was made with our initiatives to rebuild the asset and skill base to drive organic sales growth. Significantly, our original (i.e. pre-Tessera) Floors business achieved sales growth on a like-for-like basis for the first time in five years. Furthermore, the original Floors business grew pre-exceptional operating profit for the second year in a row after several years of continued decline.

The MoD contract is performing to our expectations: as anticipated, set-up costs in 2004 have offset the operating profit contribution but we will benefit financially in 2005 and, as importantly, will be well positioned to pursue similar contracts. Elsewhere in the original business the UK and French contract businesses grew satisfactorily, as did our non-European export activities. Sales in Benelux and in our UK consumer products were adversely impacted by subdued market demand and price competition. As with our other Divisions, Floors has had to contend with appreciable cost rises in raw materials but increased plant utilisation and purchasing programmes helped to mitigate this.

Our Tessera business was adversely impacted by the disruption resulting from the physical relocation of a major warehouse (envisaged at the time of acquisition). This completed the transition of residual service links from the former parent company, Gaskell PLC, but the changes to distribution arrangements and related sales support infrastructure affected customer service levels and negatively impacted sales. These disruptive issues have now been addressed and indeed higher service levels and stock availability than at any time are being achieved.

The relocation of Tessera's warehousing and distribution arrangements incurred an additional cost and gave the chance to reappraise appropriate stock provision levels. The combined net effect of these was to increase year-on-year costs, and hence reduce operating profit, by approximately £0.9m.

Looking ahead, in 2005 we will continue to grow organically by focusing on attaining class-leading operational and selling processes, a successful realisation of the first full year of the MoD contract, increased investment in product range launches and selectively upgrading our production capability to ensure product differentiation. We will also continue to consider opportunities for strategically complementary acquisitions.

Yarns & Fabrics

Including a four month contribution from Yihua Bonar turnover grew by 11% to £59.3m (2003: £53.3m). Divisional operating profit grew by 51% to £5.3m (2003: £3.5m). Excluding Yihua Bonar, sales and operating profit growth were 8% and 44% respectively. Return on sales is now a much-improved 9% (2003: 7%) for the Division and the return on net operating assets increased from 13% to 18%.

Most encouragingly our Belgian business, the largest element of the Division, is continuing its strong recovery. This was in part due to continuing progress in sales which commenced in the latter part of 2003, driven especially by major new business in industrial fabrics and by continued market growth and market share gain in our geotextiles business. In addition, we continue to make good progress in improving our manufacturing efficiencies. These positive factors more than offset a significant escalation in raw material prices. All other elements remained broadly neutral year-on-year. At the end of the year we commenced a £2.5m upgrade to our non-woven geotextile factory to provide additional manufacturing capacity and industry-leading quality. This will impact output at the plant in the first half of 2005 but will ensure greater productivity in the longer term. We continue to focus on our initiatives to provide more value-added services across all our product segments - which benefits margins and ensures differentiation.

Our Dundee yarns business also made very good progress in 2004. Volumes increased by almost 15% year-on-year with carpet backing holding steady and grass yarns continuing the very strong growth of recent years. This volume growth, allied to the fact that we were able to pass on much of our raw material cost increases via higher selling prices, gave us significant manufacturing efficiencies and meant we could offset the negative impact of having a large US dollar revenue stream. The investment in capacity expansion to satisfy this growing demand that took place in early 2004 was executed to plan and further investment will take place in early 2005.

The first few months of trading of Yihua Bonar proved very satisfactory and in line with our expectations. All three main product areas carpet backing, artificial grass pitch backing and geotextiles performed well and we are improving the financial controls and operational efficiencies of the business. The underlying demand from the domestic Chinese market, which is the source of over 80% of sales, has held up well throughout our period of involvement.

The acquisition of LCM Construction Products Ltd, trading as ADFIL, took place in December 2004 immediately after our year end. We are working to ensure that ADFIL gets the benefits of being part of a larger business, and that the anticipated synergies are delivered.

Our strategy for developing a portfolio of global specialist technical textile, yarn and fibre producers within this Division continues, with both successful organic expansion of the Belgian and Dundee businesses and the two recent acquisitions. We will continue to invest to support growth, increasing product differentiation and further product innovation in 2005. Acquisitions in segments that are consistent with this strategy or with geographic expansion of our core activities will continue to be pursued.

Plastics

Operating profit increased by 7% to £1.2m in 2004 versus the previous year (2003: £1.2m), despite a decline in turnover of 6% to £59.2m (2003: £63.0m) Operating profit margins of 2% (2003: 2%) compare with an operating loss of 1% two years ago. North American Plastics had a strong second half and consequently recovered to hold local currency profit year-on-year despite a poor first half; North European Plastics grew slightly as its continued progress was hampered by sluggish demand and pricing pressures in Holland and Germany in particular. Our French business remained at breakeven despite a revenue decline driven by price competition and low market demand for material handling products, especially in chemical distribution. Our Spanish operation was loss-making at a local operating profit level, although it is responding well to a change of management and is recovering satisfactorily. Other positive developments included the continued emergence of Poland as a low-cost manufacturing base and as an entry point to Eastern European markets, the continued recovery of our Danish business, and the progress of our US West Coast operations.

Good progress in improving operational productivity, cost control and financial discipline has been offset in almost equal measure by unprecedentedly high levels of polyethylene pricing. Encouraging operational progress has been made under Steve Good, who was appointed Divisional Managing Director almost a year ago, with second half performance proving the best for three years. Operating profit grew significantly in comparison to the second half of 2003, and more than doubled in comparison to the first half of 2004. Both our North American and North European regions delivered local operating margins for the second half in line with the targets set at the start of the turnaround programme. Moreover, this year-on-year improving trend has been achieved despite raw material costs being over £1 million higher in 2004, and with the majority of the increase being in the second half of the year. The price-competitive nature of the industry and the subdued market conditions meant that passing on raw material cost increases proved challenging.

Looking ahead, we will continue with our strategy of focusing on operational recovery, which is delivering tangible improvements in performance. Amongst others, we are undertaking a number of purchasing initiatives which will have a clear financial benefit. We have also further strengthened the divisional management team. Accordingly, although there remains much to be done in a comparatively demanding business context, I am encouraged by the prospects for the Division in 2005.

Outlook

We have demonstrated our capability to grow organically in markets that are, in general, linked to the health of the European and North American industrial sectors and which have been broadly subdued. In aggregate we see little change to this pattern. Mild recovery in Continental Europe might be offset by a slight slowing of demand in the UK. Of greater significance to our profitability in 2005 are our ability to gain market share, control our operating costs and mitigate raw material price rises through increasing selling prices. I place more reliance on our ability to achieve these factors than on a major stimulus to our markets from strong macro economic recovery. At the time of writing there are some tentative signs that the significant escalation in our raw material prices over the last 12 months may be easing and this would offer a benefit should they indeed reduce slightly. Although there are some product or geographic segments that we expect to show significant growth, our medium-term prognosis remains one of positive but GDP driven growth. Progress will be driven in 2005 and beyond by continued organic sales growth and productivity enhancements, allied to further strategically attractive acquisitions in the Floors and Yarns & Fabrics Divisions.

Consolidated Profit and Loss Account
for the year ended 30 November 2004

	2004	2003
	£000	£000
Turnover		
Continuing	**200,031**	191,704
Acquisitions	**1,620**	-
	201,651	191,704
Operating profit before amortisation of goodwill and exceptional costs		
Continuing	**12,425**	11,467
Acquisitions	**272**	-
	12,697	11,467
Amortisation of goodwill		
Continuing	**(579)**	(397)
Acquisitions	**(4)**	-
Operating profit before exceptional costs	**12,114**	11,070
Exceptional operating costs		
Continuing	**(423)**	(925)
Operating profit		
Continuing	**11,423**	10,145
Acquisitions	**268**	-
	11,691	10,145
Net interest payable	**(743)**	(953)
Profit on ordinary activities before taxation	**10,948**	9,192
Taxation on profit on ordinary activities	**(3,422)**	(3,151)
Profit on ordinary activities after taxation	**7,526**	6,041
Minority Interest - equity	**(109)**	-
Profit for the financial year	**7,417**	6,041
Dividends (including non-equity) **(note 1)**	**(4,509)**	(4,201)
Transferred to reserves	**2,908**	1,840
Earnings per ordinary share before amortisation of goodwill and exceptional costs (note 2)	**8.13p**	6.97p
Earnings per ordinary share before exceptional costs (note 2)	**7.72p**	6.69p
Basic earnings per ordinary share (note 2)	**7.43p**	6.05p
Fully diluted earnings per ordinary share (note 2)	**7.27p**	6.04p

All results are derived from continuing operations.

Balance Sheet
at 30 November 2004

	Group	
	2004	2003
	£000	£000
Fixed assets		
Intangible assets	**10,824**	9,850
Tangible assets	**58,423**	58,744
	69,247	68,594
Current assets		
Stocks	**33,681**	32,098
Debtors		
– due within one year	**44,605**	43,317
– due after one year	**7,281**	5,746
	51,886	49,063
Cash and short term deposits	**28,938**	27,862
	114,505	109,023
Creditors – due within one year		
Bank and other borrowings	**6,097**	5,049
Other creditors	**55,508**	50,073
	61,605	55,122
Net current assets	**52,900**	53,901
Total assets less current liabilities	**122,147**	122,495
Creditors – due after one year		
Bank and other borrowings	**7,888**	12,427
Other creditors	**2,969**	3,061
	10,857	15,488
Provisions for liabilities and charges		
Deferred taxation	**5,169**	4,634
	106,121	102,373
Capital and reserves		
Equity and non-equity called up share capital	**50,291**	50,137
Share premium account	**60,453**	60,424
Exchange reserve	**(7,542)**	(5,985)
Profit and loss account	**770**	(2,203)
Shareholders' funds		
– Equity	**103,572**	101,973
– Non-equity	**400**	400
	103,972	102,373
Minority Interest - equity	**2,149**	-
	106,121	102,373

Consolidated Cash Flow Statement
for the year ended 30 November 2004

	2004 £000	£000	2003 £000	£000
Net cash inflow from operating activities (note 3)		**21,407**		19,426
Interest received	**573**		496	
Interest paid	**(1,403)**		(1,019)	
Non-equity dividends paid	**(23)**		(23)	
Returns on investments and servicing of finance		**(853)**		(546)
Tax paid		**(3,699)**		(1,949)
Purchase of tangible fixed assets	**(6,871)**		(3,892)	
Sale of tangible fixed assets	**614**		667	
Receipt of government grants	**-**		140	
Capital expenditure		**(6,257)**		(3,085)
Acquisition of subsidiaries **(note 5)**	**(2,405)**		(19,326)	
Cash acquired with subsidiary	**609**		-	
Sale of subsidiaries	**65**		39	
Acquisitions and disposals		**(1,731)**		(19,287)
Equity dividends paid		**(4,278)**		(2,984)
Net cash inflow/(outflow) before management of liquid resources and financing		**4,589**		(8,425)
Management of liquid resources				
Decrease in short term deposits		**2,200**		6,800
Proceeds of share issues	**183**		-	
Additional/(repayment of) loans due under one year	**1,034**		(3,329)	
(Repayment of)/additional loans due after one year	**(4,500)**		8,478	
Financing		**(3,283)**		5,149
Increase in cash (note 4)		**3,506**		3,524

	2004 £000	2003 £000
Reconciliation of net cash		
Opening net cash	**10,386**	18,231
Exchange	**(205)**	580
Net cash flow	**4,772**	(8,425)
Closing net cash **(note 4)**	**14,953**	10,386

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 30 November 2004

	2004 £000	2003 £000
Profit for the financial year	**7,417**	6,041
Currency translation differences on overseas net investments and related borrowings	**(1,609)**	3,144
Total recognised gains for the year	**5,808**	9,185

Reconciliation of Movements in Consolidated Shareholders' Funds
for the year ended 30 November 2004

	2004 £000	2003 £000
Profit for the financial year	**7,417**	6,041
Dividends	**(4,509)**	(4,201)
	2,908	1,840
Other recognised gains and losses relating to the year	**(1,609)**	3,144
New share capital subscribed	**183**	-
Long Term Incentive Plan provision	**117**	450
Net increase in shareholders' funds	**1,599**	5,434
Shareholders' funds at start of year	**102,373**	96,939
Shareholders' funds at end of year	**103,972**	102,373

Segmental Information

	Turnover		Profit		Net assets	
	2004	2003	**2004**	2003	**2004**	2003
	£000	£000	**£000**	£000	**£000**	£000
Classes of business						
Floors	83,132	75,334	9,699	10,716	37,060	39,410
Yarns & Fabrics						
- existing businesses	57,670	53,326	5,066	3,523	26,446	27,781
- acquisitions	1,620	-	268	-	3,725	-
Total Yarns & Fabrics	59,290	53,326	5,334	3,523	30,171	27,781
Total Specialist Materials	142,422	128,660	15,033	14,239	67,231	67,191
North European Plastics	23,617	23,257	1,066	926	11,599	12,409
South European Plastics	15,252	18,126	(306)	(295)	5,756	6,259
North American Plastics	20,360	21,661	486	537	11,540	12,848
Total Plastics	59,229	63,044	1,246	1,168	28,895	31,516
	201,651	191,704	16,279	15,407	96,126	98,707
Central Costs			(4,165)	(4,337)		
Pre-exceptional operating profit			12,114	11,070		
Exceptional operating costs			(423)	(925)		
Operating profit			11,691	10,145		
Net interest			(743)	(953)		
Group profit before taxation			10,948	9,192		
Non-operating liabilities					(4,958)	(6,720)
Net cash					14,953	10,386
Total net assets					106,121	102,373
Geographical segments						
By origin:						
United Kingdom	69,438	60,559	7,603	9,225	37,719	35,761
Europe	110,233	109,484	7,925	5,654	42,901	49,893
North America	20,360	21,661	483	528	11,781	13,053
Asia	1,620	-	268	-	3,725	-
	201,651	191,704	16,279	15,407	96,126	98,707
Central costs			(4,165)	(4,337)		
Pre-exceptional operating profit			12,114	11,070		
Exceptional operating costs			(423)	(925)		
Operating profit			11,691	10,145		
Net interest			(743)	(953)		
Group profit before taxation			10,948	9,192		
Non-operating liabilities					(4,958)	(6,720)
Net cash					14,953	10,386
Total net assets					106,121	102,373
Turnover by destination:						
United Kingdom	49,735	41,899				
Continental Europe	108,039	107,111				
North America	29,041	31,053				
Rest of World	14,836	11,641				
	201,651	191,704				

Exceptional operating costs of £423,000 in 2004 relate to legal costs in responding to a statement of objections received from the European Commission concerning an investigation into alleged anti-competitive practices in the European industrial bags market. The group exited this market in 1997. The costs do not relate to any of the Group's current business. Exceptional operating costs in 2003 relate to the floors businesses. £434,000 was spent re-organising the existing business with a further £491,000 spent integrating the acquired carpet tile business. Non-operating liabilities represent other debtors greater than one year, tax and deferred tax, dividends, provisions and equity minority interests.

1. Dividends

	2004 £000	2003 £000
On non-equity shares:		
First, second and third cumulative preference stock		
Half year to 31 May 2004 (paid)	**11**	11
Half year to 30 November 2004 (since paid)	**12**	12
	23	23
On equity shares:		
Ordinary shares		
Interim dividend of 1.60p (2003 – 1.50p) (paid)	**1,592**	1,492
Final dividend of 2.90p (2003 – 2.70p) (proposed)	**2,894**	2,686
	4,509	4,201

2. Earnings per ordinary share

	2004 £000	2003 £000
Profits are calculated as follows:		
Profit after tax	**7,526**	6,041
Preference dividend	**(23)**	(23)
Minority interest	**(109)**	-
Profits attributable to equity shareholders	**7,394**	6,018
Exceptional operating costs	**423**	925
Tax relief thereon	**(134)**	(289)
Earnings before exceptional costs	**7,683**	6,654
Amortisation of goodwill	**583**	397
Tax relief thereon	**(174)**	(119)
Earnings before amortisation of goodwill and exceptional costs	**8,092**	6,932
Basic earnings per share	**7.43p**	6.05p
Earnings per share before exceptional costs	**7.72p**	6.69p
Earnings per share before amortisation of goodwill and exceptional costs	**8.13p**	6.97p
Fully diluted earnings per share	**7.27p**	6.04p

The two additional calculations of earnings per share before amortisation of goodwill and exceptional costs and before exceptional costs are 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 weighted average number of ordinary shares in issue during the year of 99,526,756 (2003: 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 Share Save Scheme and the 2003 Low & Bonar Long Term Incentive Plan awards (to the extent to which the performance criteria had been achieved at 30 November 2004) being 2,133,080 shares (2003: 208,151). The number of shares included in the calculation of fully diluted earnings per share was 101,659,836 (2003: 99,682,841). Other awards under the 2003 Long Term Incentive Plan are non-dilutive as the shares concerned are treated on a contingent basis in accordance with the treatment prescribed by FRS14.

3. Net cash inflow from operating activities

	2004 £000	2003 £000
Operating profit	**11,691**	10,145
Depreciation	**7,553**	8,733
Amortisation	**583**	397
Write back of government grants	**(73)**	(83)
Increase in stocks	**(2,230)**	(1,802)
Increase in debtors	**(2,963)**	(1,471)
Increase in creditors	**6,729**	3,057
Credit in respect of Long Term Incentive Plan	**117**	450
Net cash inflow from operating activities	**21,407**	19,426

4. 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 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 1 December 2003	20,862	7,000	(5,049)	(12,427)	10,386
Cash flow	3,506	(2,200)	(1,034)	4,500	4,772
Exchange rate fluctuations	(230)	-	(14)	39	(205)
At 30 November 2004	**24,138**	**4,800**	**(6,097)**	**(7,888)**	**14,953**

	2004 Cash £000	2003 Cash £000
Per balance sheet	**28,938**	27,862
Short term bank deposits included	**(4,800)**	(7,000)
As above	**24,138**	20,862

5. Acquisitions

Current Year

On 31 July 2004, the group purchased a 50.1% investment in an investment vehicle which was then used to purchase the trade and assets of Yihua Polytiles Company Limited, from Yihua Corporation, a subsidiary of Sinopec. The business was subsequently renamed Yihua Bonar Yarns & Fabrics Company Limited (‘Yihua Bonar’). The cash investment made by Low & Bonar into Yihua Bonar was £2,181,000. There is no deferred consideration. The group incurred costs of £224,000 associated with the acquisition, of which £53,000 were non-audit fees paid to KPMG. The group may, at its own option, and by licensing its proprietary technology to the business, increase its ownership to 60%.

	Book Value £000	Fair Value Adjustments £000	Fair Value £000
Fixed Assets	2,010	-	2,010
Stock	932	(60)	872
Debtors	789	-	789
Creditors	(12)	-	(12)
Cash	609	-	609
Net Assets acquired	4,328	(60)	4,268
50.1% share of net assets acquired			2,138
Purchase consideration, including costs			2,405
Goodwill arising on acquisition			267

The fair value adjustment of £60,000 relates to the downwards revaluation of inventory to its replacement cost.

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 consolidation of Yihua Bonar is 20 years.

Prior Year

Provisional fair values allocated to the acquisition of the carpet tiles business from Gaskell PLC in February 2003 were reported in the financial statements for the year ended 30 November 2003. The fair values of the assets acquired have been revised, in accordance with FRS 7, from £9,079,000 to £7,789,000. The revision is due to the revaluation of inventory to its replacement cost, amounting to £1,024,000 and the provision of obsolete inventory of £266,000, a total adjustment of £1,290,000. Hence goodwill arising on acquisition is now £11,537,000.

6. This preliminary announcement has been prepared on the basis of the accounting policies set out in the annual report for the year ended 30 November 2003.

7. The financial information set out in this preliminary announcement does not constitute the company's statutory accounts for the year ended 30 November 2004 or 2003 but is derived from those accounts. Statutory accounts for 2003 have been delivered to the registrar of companies, whereas those for 2004 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.