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

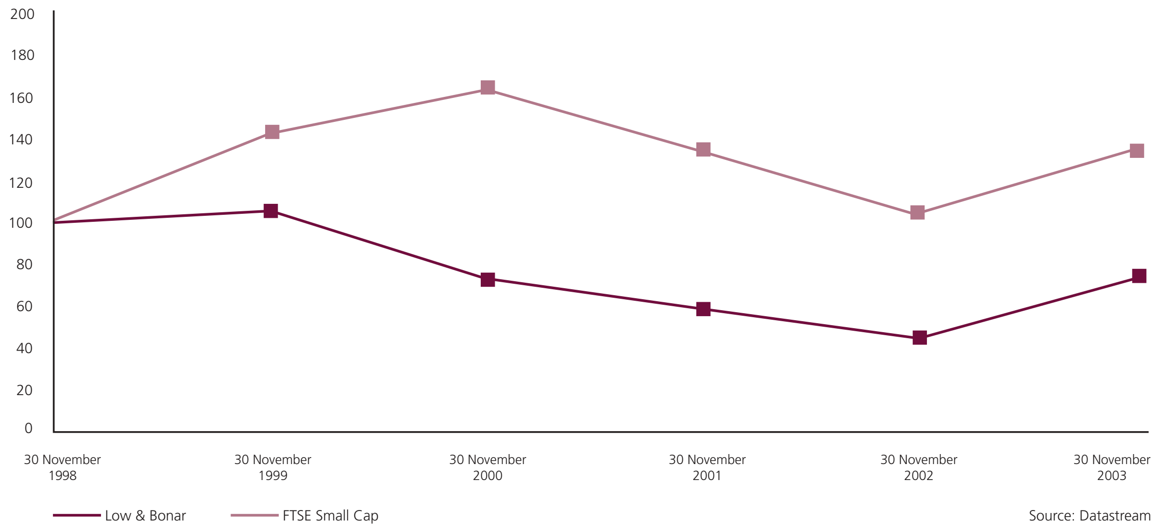
The remuneration of the non-executive directors is determined by the Board, based on recommendations from the Nominations Committee, with the non-executive directors concerned not participating in the decision. The Committee determines the remuneration of the Chairman. Remuneration paid to the Chairman 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:

	Number of shares awarded			
Director	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:

	Number of options					
Director	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