Lowland Investment Company plc

Report and Accounts for the year ended
30 September 2002

Company No.
670489

Contents

Lowland Investment Company plc

Objective

The Company aims to give shareholders a higher than average income return with growth of both capital and income over the medium to long term.

Policy

The Company's policy is to invest in a broad spread of different sized companies with not more than half by value coming from the largest 100 UK companies and the balance from small and medium sized companies.

Financial Highlights

	Year ended 30 September 2002	Year ended 30 September 2001	*Change*
Net asset value per ordinary share	**405.24p**	466.53p	(13.14)%
Share price	**415.00p**	440.00p	(5.68)%
Market Capitalisation	**£84.6m**	£86.7m	(2.42)%
Earnings per ordinary share	**15.21p**	18.18p	(16.34)%
Net dividends per ordinary share:			
Interim paid	**6.30p**	6.00p	5.00%
Final proposed	**9.20p**	8.75p	5.14%
Total	**15.50p**	14.75p	5.08%

Dividend

The recommended final dividend of 9.20p per ordinary share will, if approved at the Annual General Meeting, be paid on 18 December 2002 to shareholders on the register of members at the close of business on 29 November 2002. The Company's shares will be quoted ex-dividend on 27 November 2002.

Directors

Ian M Trotter* (Chairman) (age 64), is a former Executive Director of Sun Alliance Group plc and Managing Director of Sun Alliance Investment Management Limited. He is presently a Director of Schroder UK Growth Fund plc and M & G High Income Investment Trust PLC. He was appointed to the Board in 1997.

Rupert G M L Barclay* (age 45), is the Chief Financial Officer of Lombard Risk Management PLC. He was appointed to the Board in 2000.

John P D Hancox* (age 61), is Chairman of Johnson Service Group plc and a non-executive Director of Gartmore Fledgling Trust plc, Martin Currie Enhanced Income Trust plc and a number of unlisted companies. He was appointed to the Board in 2000.

Michael B Moule (age 56), is a director of Investment Trusts at Henderson Global Investors, The Bankers Investment Trust PLC and Old Mutual South Africa Trust plc. He was appointed to the Board in 1997.

Peter J C Troughton* (age 54), is Chief Executive of First Arrow Investment Management Limited, a director of Five Arrows Limited and Chairman of International Growth and Value Fund. He is a non-executive Director of Archant Limited (formerly Eastern Counties Newspaper Group Limited). He was appointed to the Board in 1990.

*Independent non-executive director and a member of the Company's Audit Committee, Management Engagement Committee and Nominations Committee which are chaired by Ian M Trotter.

Manager

Henderson Global Investors Limited is appointed to manage the investment portfolio in furtherance of the Company's objectives. The terms of the appointment are given in the Directors' Report on page 12.

James H Henderson managed the portfolio during the year under review. He has been the portfolio manager since 1990.

Henderson Global Investors Limited
an Company
4 Broadgate
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Authorised and regulated by the Financial Services Authority.

Chairman's Statement

Review

During the year the Company's net asset value fell from 466.53p to 405.24p per share, a decline of 13.1%, compared with a fall of 23.0% in the FTSE All-Share Index.

The year to 30 September 2002 was a very difficult one for equity investors. The size of the fall from the peak of the market in March 2000 to its level at the end of September was 43.6%, making it the second most severe bear market since 1945, only surpassed by that of 1974. Equity valuations based on turnover growth rather than profits and cash generation were never going to be sustainable. Accounting standards slipped and fraud occurred as greed prevailed. Nevertheless, Lowland has avoided most of the worst excesses of the bull market.

Dividend

The earnings per share for the year were 15.21p, a 16.3% fall from the 18.18p achieved last year. The recommended final dividend is 9.20p per share, making a total dividend per ordinary share of 15.50p for the year, an increase of 5.1% from last year's 14.75p. This year has seen some of the underlying holdings reduce their dividends, but the Manager believes the majority of cuts have now occurred and the companies held will in aggregate grow their dividends from their new base. Accordingly, after substantially building the revenue reserve over the past few years, the Board intends to use a small part of the revenue reserve for this year's payment.

Share Capital

In the three preceding years the Company had been trading at a discount to net asset value and during this time bought back 3,925,826 shares for cancellation at an average price of 382p per share which enhanced the net asset value. This year, Lowland has at times been trading at a premium to net asset value. To enhance the net asset value, 700,000 new shares were issued at 500p per share, a premium to net asset value. This compares with a share price of 415p at the year end.

The main objective of both the purchases and the issue of shares is to enhance the net asset value. However, it is also important to increase the liquidity of the shares. Therefore the Board will seek authority to increase the issued share capital of the Company by up to 10% at this year's Annual General Meeting. This authority would only be used to issue shares at a premium to net asset value. The Board are seeking authority to issue up to 10% of the issued share capital, rather than the usual 5%, as the demand for the shares has been growing and the directors want to be able to satisfy this demand if this is likely to benefit existing holders. The Board will also be seeking a renewal of its annual authority to purchase up to 14.9% of the issued share capital for cancellation. This is just under the maximum authority permitted by the London Stock Exchange and shares would only be bought back at a discount to net asset value.

Borrowings

During the year net borrowings rose from £20.8m to £21.0m and the gearing level rose from 22.7% to 25.4%. The terms of the borrowings are shown in notes 13 and 14 on page 25, where it can be seen that 52% of borrowing is short term and the Company has been able to take advantage of the current low level of interest rates. Borrowings will remain under review and, if considered beneficial, some longer term borrowings would be sought to replace part of the short term borrowings.

The level of gearing has worked against the Company over the six months to September 2002. However, the Board believes the gearing positions the portfolio well for an improvement in investor sentiment towards equities.

Outlook

The most pressing question is, when will the improvement in investor sentiment come about? The Fund Manager in his report explains why he believes that there is fundamental value in UK equities. The UK economy is expected to keep growing at a modest rate, interest rates are expected to remain low and the greed of the late 1990s has been replaced by fear. The Lowland portfolio is placed to take advantage of better times.

Whilst economic and financial conditions remain uncertain, there are shares that have reached a level where good value exists on an acceptable yield basis. The Policy Objective of Lowland gives the Manager scope to take advantage of such investment opportunities to benefit our shareholders in the future.

Ian M Trotter
Chairman
5 November 2002

Manager's Report

Investment Background

The valuation tool underpinning Lowland's stock selection process is a Dividend Discount Model ("DDM"). The methodology of buying stocks with a good starting dividend yield and an increasing dividend has pointed the stock selection towards the better performing equities, as these companies are usually robust, cash-generating businesses. These are characteristics that investors are focusing upon. However, although the DDM approach has worked for stock picking, it has not been giving the right signals as regards stock market levels. The UK stock market appears cheap when the yield on equities is compared with the yield on Government bonds. This is the main reason we have had a relatively high level of gearing throughout the year.

Portfolio

The mix between large and smaller companies is driven by investment opportunities. The neutral position would be similar weightings in FTSE 100 companies, FTSE 250 companies and small companies. The small and medium companies element has grown in recent years as the holdings in this part of the portfolio have performed better than the large companies. Now that the leaders have fallen back in share price terms, some new buying will be in FTSE 100 companies as major companies should lead the market up, but in the longer term it is expected that the holdings in the medium and smaller companies will continue to add value. This has been the case in the past and is a major contributor to Lowland's outperformance of the FTSE All-Share Index (see chart on page 6). The return from small companies can sometimes be volatile and this is why a mixture of companies by size remains Lowland's approach.

Manager's Report

continued

The type of stocks that hold up best in the bear phase of a stock market cycle will not usually be the ones to benefit most when sentiment turns. The relative dividend yields of the more predictable stable companies have fallen and exposure to this area is being reduced. The tobacco stocks **BAT** and **Gallagher** have been sold, while some major companies that have suffered substantial falls are offering value. The holding in **Vodafone** has been increased and **Sainsbury** has been added to the list.

The two sectors in which Lowland is particularly heavily exposed are general insurance and *manufacturing. The holdings in insurance have* been increased as the rating background is very favourable. In the insurance sector there have been purchases in the **RSA Group** and **Wellington Underwriting** as a strong profits recovery is expected in due course. However, engineering is more complex. The operating performances of the companies are very mixed. The holding in **Cookson** was sold and **Wagon** was reduced, while further shares were purchased in **Charter** and **Senior**. Investors have been selling down the whole area; this will prove wrong as some companies will come through the current difficult phase with strong earnings growth whereas others have become fundamentally weakened. Our response has been to try to sort between the two.

Prospects

The UK market is unlikely to move in a different direction from other major stock markets as the UK economy is tied to its large trading partners. However, there is substantial long term value in the stocks Lowland holds. The dividend yield on the portfolio is around 6%. This is substantially more than on gilts, yet the dividend flow from the underlying holdings is expected to grow in spite of the low growth and low inflation economic backdrop. This value will, in time, come to be recognised. Meanwhile, the objective will be to focus on companies that are clearly dealing well with a changing economy.

Historical Record

Year to 30 September	1992	1993	1994*	1995	1996	1997	1998	1999*	2000	2001	2002
Gross revenue £'000	3,753	4,157	4,494	5,339	6,024	5,489	5,255	5,158	5,834	6,606	**5,795**
Per ordinary share (pence):											
Net earnings	8.75	9.45	9.92	11.27	12.88	11.68	12.55	13.86	14.79	18.18	**15.21**
Dividend paid (net)	8.50	9.00	9.30	10.00	11.00	11.60	12.00	13.00	14.00	14.75	**15.50**
Imputed Tax	2.83	2.61	2.33	2.50	2.75	2.90	3.00	1.44	1.55	1.64	**1.72**
Total dividend (gross)	11.33	11.61	11.63	12.50	13.75	14.50	15.00	14.44	15.55	16.39	**17.12**
Net assets attributable to ordinary shares £'000	47,156	66,324	66,883	77,258	80,429	92,793	88,013	99,520	96,433	91,884	**82,649**
Net asset value per ordinary share (pence)	200.8	282.4	284.8	325.6	339.0	392.8	372.6	465.8	486.5	466.5	**405.2**
INDICES: 1992 = 100											
Net asset value capital return	100	141	141	162	169	196	186	232	242	232	**202**
Ordinary share price capital return	100	138	146	171	156	164	151	201	201	218	**205**
Net dividend	100	106	109	118	129	136	141	153	165	174	**182**
FTSE All-Share Index capital return	100	125	125	144	161	204	194	234	251	194	**149**
FTSE All-Share Dividend Index	100	104	108	112	116	120	124	127	129	133	**138**
Retail Prices Index	100	102	104	108	110	114	118	119	123	125	**127**

*Restated for changes in accounting policies
Source: Datastream and Henderson Global Investors

Share price, net asset value and the FTSE All-Share Index (capital return only) for the twenty years to 30 September 2002 (1982 = 100)

Portfolio Analysis

at 30 September 2002

		United Kingdom %	Europe %	Total 30 Sept 2002 %	FTSE All-Share 30 Sept 2002 %	Total 30 Sept 2001 %
Resources	Mining	–	0.1	0.1	3.1	1.6
	Oil & Gas	4.4	–	4.4	13.8	5.7
		4.4	0.1	4.5	16.9	7.3
Basic Industries	Chemicals	4.0	–	4.0	1.0	3.8
	Construction & Building Materials	11.3	–	11.3	2.2	10.1
	Steel & Other Metals	–	–	–	0.1	–
		15.3	–	15.3	3.3	13.9
General Industrials	Aerospace & Defence	1.8	–	1.8	1.2	2.4
	Electronic & Electrical Equipment	0.6	–	0.6	0.4	–
	Engineering & Machinery	12.0	–	12.0	0.7	10.8
		14.4	–	14.4	2.3	13.2
Cyclical Consumer Goods	Automobiles	3.0	–	3.0	0.3	2.5
	Household Goods & Textiles	0.9	–	0.9	0.1	0.6
		3.9	–	3.9	0.4	3.1
Non-Cyclical Consumer Goods	Beverages	1.6	–	1.6	3.6	1.8
	Food Producers & Processors	2.4	–	2.4	3.0	1.6
	Health	–	–	–	0.9	–
	Personal Care & Household Products	0.8	–	0.8	0.7	–
	Pharmaceuticals	1.2	–	1.2	10.7	0.8
	Tobacco	–	–	–	2.1	2.0
		6.0	–	6.0	21.0	6.2
Cyclical Services	Distributors	0.1	0.3	0.4	–	0.9
	General Retailers	8.6	–	8.6	3.8	8.6
	Leisure, Entertainment & Hotels	5.6	–	5.6	2.2	6.4
	Media & Photography	1.1	–	1.1	3.8	0.5
	Support Services	6.5	–	6.5	2.9	6.9
	Transport	1.8	–	1.8	1.9	2.0
		23.7	0.3	24.0	14.6	25.3
Non-Cyclical Services	Food & Drug Retailers	0.4	–	0.4	2.4	1.6
	Telecommunications Services	3.1	–	3.1	7.5	2.3
		3.5	–	3.5	9.9	3.9
Utilities	Electricity	1.6	–	1.6	2.0	0.5
	Gas Distribution	–	–	–	1.2	–
	Water	0.7	–	0.7	0.8	1.7
		2.3	–	2.3	4.0	2.2
Financials	Banks	8.6	–	8.6	18.7	7.5
	Insurance	9.9	–	9.9	0.4	5.8
	Life Assurance	1.9	1.4	3.3	2.5	4.8
	Investment Companies	–	–	–	2.2	–
	Real Estate	1.9	–	1.9	1.7	3.4
	Speciality & Other Finance	–	–	–	1.4	–
		22.3	1.4	23.7	26.9	21.5
Information Technology	Information Technology Hardware	–	–	–	0.2	–
	Software & Computer Services	0.1	–	0.1	0.5	–
		0.1	–	0.1	0.7	–
	Equities	95.9	1.8	97.7	–	96.6
	Convertibles	0.8	–	0.8	–	2.3
	Fixed Income	1.5	–	1.5	–	1.1
	Total at 30 September 2002	**98.2**	**1.8**	**100.0**	**100.0**	
	Total at 30 September 2001	**97.9**	**2.1**			**100.0**

Investment Portfolio

at 30 September 2002

Market Value £'000	Investments	% of Portfolio
	Mining	*0.1*
42	Glencar Mining	
	Oil & Gas	*4.4*
*2,550	BP	
*2,085	Shell Transport	
	Chemicals	*4.0*
*2,098	Croda	
998	Elementis	
676	Scapa Group	
464	Yorkshire	
	Construction & Building Materials	*11.3*
803	BPB	
67	Cape	
442	Communisis	
*2,798	Heywood Williams	
505	Low & Bonar	
1,083	Marshalls	
*3,504	McAlpine (A)	
419	RMC Group	
*2,325	Wilson (Connolly)	
	Aerospace & Defence	*1.8*
1,364	Meggitt	
550	Rolls-Royce	
	Electronic & Electrical Equipment	*0.6*
316	Laird	
308	Volex	
	Engineering & Machinery	*12.0*
868	Aga Foodservice	
39	Bullough	
1,196	Carclo	
1,280	Charter	
685	Eleco	
963	Firth Rixson	
1,507	IMI	
*2,145	Metalrax	
238	Morgan Crucible	
*2,275	Renold	
1,050	Senior	
462	Tinsley (Eliza)	
	Automobiles	*3.0*
*1,825	Avon Rubber	
493	Vardy (Reg)	
838	Wagon	

Market Value £'000	Investments	% of Portfolio
	Household Goods & Textiles	*0.9*
214	Baird (William)	
675	Sirdar	
88	Stoddard International	
	Beverages	*1.6*
*1,680	Scottish & Newcastle	
	Food Producers & Processors	*2.4*
146	Express Dairies	
*2,405	Tate & Lyle	
	Personal Care & Household Products	*0.8*
810	McBride	
	Pharmaceuticals	*1.2*
1,230	Glaxo Wellcome	
	Distributors	*0.4*
393	Unidare	
	General Retailers	*8.6*
661	Boots	
*1,624	DFS Furniture	
813	Great Universal Stores	
*4,087	Homestyle	
600	House of Fraser	
770	Smith (WH)	
600	Woolworths	
	Leisure, Entertainment & Hotels	*5.6*
590	City Centre Restaurant	
1,368	De Vere	
*2,069	Greene King	
1,335	Rank	
#590	Wadworth	
	Media & Photography	*1.1*
1,130	Reuters	
	Support Services	*6.5*
441	Brandon Hire	
314	De La Rue	
1,053	Interserve	
*2,695	Johnson Service	
965	RAC	
400	RPC	
1,043	Wincanton	

Investment Portfolio
continued

Market Value £'000	Investments	% of Portfolio
	Transport	*1.8*
976	Arriva	
252	Avis Europe	
654	Mersey Docks	
	Food & Drug Retailers	*0.4*
17	Alldays	
420	Sainsbury (J)	
	Telecommunications	*3.1*
1,398	BT Group	
289	Cable & Wireless	
*1,630	Vodafone	
	Electricity	*1.6*
603	Scottish Power	
685	Scottish & Southern Energy	
461	Viridian	
	Water	*0.7*
734	United Utilities	
	Banks	*8.6*
*2,060	Abbey National	
785	Alliance & Leicester	
1,115	Barclays	
1,159	HBOS	
*1,610	HSBC	
*1,761	Lloyds TSB	
655	Standard Chartered	

Market Value £'000	Investments	% of Portfolio
	Insurance	*9.9*
613	Amlin	
640	Chaucer	
370	Cox Insurance	
1,208	Hardy Underwriting	
1,427	Highway Insurance	
1,449	Hiscox	
1,163	Kiln	
962	Royal & Sun Alliance	
1,237	SVB Holdings	
1,395	Wellington Underwriting	
	Life Assurance	*3.3*
1,341	Aviva	
56	Britannic	
1,439	Irish Life & Permanent	
679	Prudential	
	Real Estate	*1.9*
*2,018	St Modwen	
	Software & Computer Services	*0.1*
115	Parity	
	Convertibles	*0.8*
328	Morgan Crucible	
116	Quarto	
422	Telewest	
	Fixed Interest	*1.5*
1,461	Colt Telecom	
#162	Wadworth	

* The 20 largest investments by value account for 42.7% of the total value of fixed asset investments of £106,002,000

\# Unquoted investment

Ten Largest Holdings

at 30 September 2002

Homestyle
Market Capitalisation £175m
Under various different brands the company retails beds, furniture and textiles. The presentation and value of its offering have been improved which is benefiting sales and profits.

McAlpine
Market Capitalisation £275m
The company has transformed itself in recent years. It has sold the house building activities and built up the infrastructure services businesses. These activities are going well.

Heywood Williams
Market Capitalisation £150m
The company extrudes, manufactures and distributes products for the building industry. The new management team is improving the operating performance.

Johnson Service Group
Market Capitalisation £150m
The workwear rental and drycleaning activities are sound businesses which have the potential to grow and generate cash.

BP
Market Capitalisation £100,000m
The strong operating performance of recent years from the largest company in the UK market remains on track.

Tate & Lyle
Market Capitalisation £1,500m
The company is achieving price increases for its sweetener products and this, combined with cost reductions, is leading to a strong trend in earnings.

Wilson (Connolly)
Market Capitalisation £300m
The housebuilder has recently undergone management changes. The margins achieved are now expected to improve towards those of industry leaders. This should result in considerable profits growth.

Renold
Market Capitalisation £40m
The company is one of the largest global chain manufacturers. It also makes related power transmission products, automatic cam drive systems and machine tools. The last has recently been a problem but this has now been addressed.

Metalrax
Market Capitalisation £80m
The activities cover a broad range of UK engineering activities. In spite of the difficult background, the order book remains satisfactory.

Croda
Market Capitalisation £330m
The company manufactures speciality and industrial chemicals. Unlike most chemical companies Croda has been trading well and is growing its dividend.

The top ten investments by value account for 25.4% of the total value of fixed asset investments of £106,002,000

Directors' Report

The directors have pleasure in presenting their report and the audited accounts of the Company for the year ended 30 September 2002.

Principal Activities and Business Review

A review of the business is given in the Chairman's Statement on page 3 and in the Manager's Report on pages 4 and 5.

Status

Since reapplying in December 2000, the Company has been an investment company as defined by Section 266 of the Companies Act 1985. The Company operates as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988.

It is required to seek Inland Revenue approval of its status as an investment trust under the above mentioned Section 842 every year and this approval will continue to be sought. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 30 September 2001, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The directors are of the opinion that the Company has subsequently conducted its affairs in a manner which will enable it to continue to gain such approval.

Revenue and Dividends

Earnings per ordinary share amounted to 15.21p (2001: 18.18p). Net revenue for the year after taxation and available for ordinary shareholders was £3,004,000 (2001: £3,584,000).

An interim dividend of 6.30p (2001: 6.00p) net per ordinary share was paid on 7 June 2002 and the directors recommend that a final dividend of 9.20p (2001: 8.75p) net per ordinary share be paid on 18 December 2002 making a total dividend for the year of 15.50p (2001: 14.75p) per ordinary share.

Assets

At 30 September 2002 total net assets were £82.6m (2001: £91.9m) and the net asset value per ordinary share was 405.24p (2001: 466.53p), a decrease of 13.1% in the year.

Directors

The names and biographies of the directors of the Company, all of whom held office throughout the financial year, are given on page 2. In accordance with the Articles of Association, Mr Moule and Mr Trotter will retire by rotation at the Annual General Meeting and will offer themselves for re-election.

Mr Moule is an executive of Henderson Global Investors Limited.

Other than shown above, there were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No director has a service contract with the Company.

The directors' interests in the ordinary share capital of the Company are as shown in the table below:

Ordinary Shares of 25p with beneficial interest	30 September 2002	1 October 2001
M B Moule	2,000	2,000
I M Trotter	5,000	5,000
P J C Troughton	3,668	3,541
R G M L Barclay	2,474	2,412
J P D Hancox	7,000	7,000

There have been no other changes in directors' interests since the end of the financial year and the date of this report.

No director had an interest at the beginning or at the end of the financial year in the Company's debenture stock.

Directors' Report
continued

Statement of Directors' Responsibilities in respect of the Accounts

The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 30 September 2002. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on websites maintained by the Company's Manager, Henderson Global Investors Limited. The maintenance and integrity of these websites is, so far as it relates to the Company, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the websites. Visitors to the websites need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in their own jurisdiction.

Going Concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Substantial Share Interests

At 5 November 2002 the following shareholder had notified the Company of interests in 3% or more of the Company's issued ordinary share capital:

	Number of Ordinary shares	%
Combined discretionary managed clients of Henderson Global Investors Limited, AMP Asset Management Limited and funds advised by NPI Asset Management Limited	663,453	3.25%

Management Company

Investment management, accounting, secretarial, administrative and UK custody services are provided to the Company by wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") and Cogent Investment Operations Limited.

The composite annual management fee is 0.5% of the average of the aggregate net chargeable assets (excluding the value of any investment in any funds managed by Henderson) on the last day of the relevant quarter and the last day of the corresponding quarter in the preceding year.

The notice period for termination of the agreement is one year.

The Manager uses certain services which are paid for, or provided by, various brokers. In return it places business, which may include transactions relating to the Company, with these brokers.

Annual General Meeting

The notice for the Annual General Meeting can be found on pages 30 and 31. There are three items of special business to be considered:-

Authority to Allot Shares and Disapplication of Pre-emption Rights

On 30 August 2002, 700,000 ordinary shares were allotted to market makers: 650,000 to Apollo Nominees Ltd (UBS Warburg) and 50,000 to CLS Nominees Ltd (Credit Lyonnais). The shares were allotted at a price of 500p per share, a premium to net asset value of 3%.

The directors consider it desirable to be able to allot new ordinary shares to take advantage of opportunities in the market as they arise and when it would be of benefit to existing shareholders. The directors will accordingly seek authority at the forthcoming Annual General Meeting to allot up to 10% of the Company's issued share capital, which equates to 2,039,520 shares at the date of this report. The directors are seeking authority to allot ordinary shares, at a price of not less than net asset value, on a non-pre-emptive basis, which would give the directors power to allot the ordinary shares for cash without first offering such new shares to the existing shareholders in proportion to their existing holdings. This authority is being sought under resolutions 6 and 7, as set out in the Notice of Meeting on pages 30 and 31. Resolution 7 is a special resolution.

Authority to make Market Purchases of the Company's own Shares

No purchases of the Company's own ordinary shares were made under the authority granted at last year's Annual General Meeting. At the date of this report, the Company had valid authority, available until the conclusion of this year's Annual General Meeting, to make market purchases of 2,934,585 ordinary shares.

The directors will seek authority at the forthcoming Annual General Meeting to make market purchases for cancellation of the Company's own issued ordinary shares up to a maximum of 14.9% of the issued share capital at the date of the meeting, currently this would be up to 3,038,885 ordinary shares.

Market purchases of shares would only be made within guidelines set from time to time by the Board and at a cost below the then prevailing net asset value of a share such that the purchase would lead to an enhancement of shareholder value. The maximum purchase price which may be paid for an ordinary share would not be more than 5% above the average middle market price for the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase. The minimum price paid would not be below the nominal value of the shares, 25p per share. Any shares purchased would subsequently be cancelled and the number of shares in issue reduced accordingly. This authority is being sought under resolution 8, as set out in the Notice of Meeting on pages 30 and 31. Resolution 8 is a special resolution.

Donations

During the year no political or charitable donations were made.

ISAs/PEPs

The Company has conducted its affairs, and will continue to conduct its affairs, in such a way as to comply with the regulations for Individual Savings Accounts and existing Personal Equity Plans.

Payment of Suppliers

It remains the Company's payment policy for the financial year to 30 September 2003 to obtain the best possible terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors at 30 September 2002.

Nominee Code

Where shares in the Company are held by nominee companies, Lowland Investment Company plc undertakes to:

- provide nominee operators, who have indicated in advance a wish to receive them, with copies of shareholder communications for distribution to their customers; and

- encourage nominee operators to advise investors that they will be permitted to attend general meetings, and to speak at meetings when invited to do so by the Chairman.

Directors' Report
continued

Investors in the Henderson Investment Trust Share Plan, Henderson ISA, Henderson PEP and Henderson Transfer PEP receive all shareholder communications. A letter of direction or instruction is provided to facilitate voting.

Registered Auditors
PricewaterhouseCoopers have expressed their willingness to continue in office as the Company's registered auditors. A resolution to re-appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

K M Burwood FCIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
5 November 2002

Corporate Governance

Background
The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code ("the Code").

Application of the Code's Principles
The Board attaches great importance to the matters set out in the Code and observes its principles. It should be noted that, as an investment trust, most of the Company's day to day responsibilities are delegated to third parties and the directors are all non-executive; thus not all the provisions of the Code are directly applicable to the Company.

The Board and Committees
The Board currently consists of five non-executive directors, four of whom are independent of the Company's Manager. Their biographies, on page 2, demonstrate a breadth of investment, commercial and professional experience.

The Board meets eight times a year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all directors receive in a timely manner all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting enabling the directors to probe further on matters of concern or seek clarification on certain issues. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The directors have access to the advice and services of the corporate company secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are followed.

The Chairman is an independent non-executive director. A senior non-executive director has not been identified as the Board considers that all the directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

When a new director is appointed he or she is offered an introductory programme which is held by the Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise.

The Board has established Audit, Nominations and Management Engagement Committees with defined terms of reference and duties. Each committee consists of the independent non-executive directors and is chaired by Mr Trotter.

The Audit Committee is responsible for the review of the annual accounts and the interim report, terms of appointment of the auditors, together with their remuneration, as well as non-audit services provided by the auditors. It also meets with representatives of the manager and reviews reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

The Nominations Committee makes recommendations on the appointment of new directors. Directors are appointed for specified terms, subject to re-appointment and Companies Act provisions. In accordance with the Articles of Association, each director stands for election at the first Annual General Meeting following their appointment and re-election at intervals of not more than three years.

A Management Engagement Committee has been established to review and discuss the terms of the management contract with the Manager.

Directors Remuneration

The Board as a whole considers directors' remuneration and therefore has not appointed a separate Remuneration Committee. Because the Company is an investment trust and all its directors are non-executive, the Company is not required to comply with the principles of the Code in respect of executive directors' remuneration. Directors' fees are detailed in note 7 to the Accounts.

Relations with Shareholders

The Board is keen that the Annual General Meeting is a participative event which private shareholders are encouraged to attend. The Annual General Meeting is attended by the Chairman of the Board and the Audit, Nominations and Management Engagement Committees. Details of the proxy votes received in respect of each resolution are made available to shareholders and the Company has adopted a nominee share code which is set out on pages 13 and 14. After the formal meeting the Manager makes a presentation to shareholders.

Twenty working days' notice of the Annual General Meeting has been given to shareholders, as required under Code provision C.2.4.

The Notice of Meeting sets out the business of the meeting and the special resolutions are explained more fully in the Directors' Report on pages 12 and 13. Separate resolutions are proposed for each substantive issue.

Accountability and Audit

The directors' statement of responsibilities in respect of the Accounts is shown on page 12.

The Report of the Auditors can be found on page 17.

The Board has contractually delegated to external agencies, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial, administration and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers reports regularly from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends meetings of all the Chairmen of the investment trusts managed by the Manager, which is a forum to discuss industry matters, and he reports back to the Board.

The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Manager's compliance and risk management services department on an ongoing basis.

Internal Controls

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull guidance"). The process has been in place since January 2001 and up to the date of approval of this annual report. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk map. The Board receives each quarter from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives each year from the Manager a report on its internal controls (a 'FRAG' report) which includes a report from the Manager's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and of its key suppliers.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review from time to time whether a function equivalent to an internal audit is needed.

Exercise of Voting Powers

The Company has approved a corporate governance voting policy which accords with current best practice whilst maintaining a primary focus on financial returns.

Statement of Compliance

The Board has conducted an annual review of the effectiveness of the system of internal control covering all controls including financial, operational and compliance controls and risk management. This assessment took into account issues arising from the report reviewed by the Board during the year together with any additional information necessary to enable the Board to take account of all significant aspects of internal control.

The directors consider that the Company has complied with all material provisions of the Code throughout the accounting period to 30 September 2002, with the exception that a senior non-executive director has not been identified and a Remuneration Committee has not been established.

Independent Auditors' Report
to the members of Lowland Investment Company plc

We have audited the accounts which comprise the statement of total return, the balance sheet and the cash flow statement and notes 1 to 23.

Respective responsibilities of directors and auditors

The directors responsibilities for preparing the annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are 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 accounts, 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the chairman's statement, the manager's report, the directors' report and the corporate governance statement.

We review whether the corporate governance statement 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 to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 30 September 2002 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
5 November 2002

Statement of Total Return (incorporating the revenue account)

for the year ended 30 September 2002

Notes		Year ended 30 September 2002 Revenue £'000	Year ended 30 September 2002 Capital £'000	Year ended 30 September 2002 Total £'000	Year ended 30 September 2001 Revenue £'000	Year ended 30 September 2001 Capital £'000	Year ended 30 September 2001 Total £'000
2	Total capital losses from investments	–	**(12,621)**	**(12,621)**	–	(4,720)	(4,720)
3	Income from fixed asset investments	**5,661**	–	**5,661**	6,522	–	6,522
4	Other interest receivable and similar income	**134**	–	**134**	84	–	84
	Gross revenue and capital losses	**5,795**	**(12,621)**	**(6,826)**	6,606	(4,720)	1,886
5	Management fee	**(763)**	–	**(763)**	(745)	–	(745)
6, 7	Other administrative expenses	**(231)**	–	**(231)**	(204)	–	(204)
	Net return/(loss) on ordinary activities before interest payable and taxation	**4,801**	**(12,621)**	**(7,820)**	5,657	(4,720)	937
8	Interest payable	**(1,797)**	–	**(1,797)**	(2,073)	–	(2,073)
	Net return/(loss) on ordinary activities before taxation	**3,004**	**(12,621)**	**(9,617)**	3,584	(4,720)	(1,136)
9	Taxation on net return on ordinary activities	–	–	–	–	–	–
	Net return/(loss) on ordinary activities after taxation	**3,004**	**(12,621)**	**(9,617)**	3,584	(4,720)	(1,136)
	Dividends – ordinary shares						
	Over provision in prior year	–	–	–	11	–	11
	Interim paid 6.30p (2001: 6.00p)	**(1,241)**	–	**(1,241)**	(1,182)	–	(1,182)
	Final proposed 9.20p (2001: 8.75p)	**(1,876)**	–	**(1,876)**	(1,723)	–	(1,723)
		(3,117)	–	**(3,117)**	(2,894)	–	(2,894)
	Transfer (from)/to reserves	**(113)**	**(12,621)**	**(12,734)**	690	(4,720)	(4,030)
10	**Return/(loss) per ordinary share**	**15.21p**	**(63.91p)**	**(48.70p)**	18.18p	(23.95p)	(5.77p)

The revenue columns of this statement represent the revenue accounts of the Company.

The notes on pages 21 to 29 form part of these accounts.

Balance Sheet

at 30 September 2002

Notes		2002 £'000	2001 £'000
11	**Fixed asset investments**		
	Listed in United Kingdom	**101,984**	112,182
	Listed overseas	**3,266**	2,444
	Unquoted at directors' valuation	**752**	759
		106,002	115,385
	Current assets		
12	Debtors	**3,774**	1,411
	Cash at bank	**347**	249
		4,121	1,660
13	**Creditors:** amounts falling due within one year	**(15,474)**	(13,161)
	Net current liabilities	**(11,353)**	(11,501)
	Total assets less current liabilities	**94,649**	103,884
14	**Creditors:** amounts falling due after more than one year	**(12,000)**	(12,000)
	Total net assets	**82,649**	91,884
	Capital and reserves		
16	Called up share capital	**5,099**	4,924
17	Share premium	**4,102**	778
17	Other reserves		
	Capital redemption reserve	**1,007**	1,007
	Realised reserve	**99,544**	95,624
	Unrealised reserve	**(30,369)**	(13,828)
17	Revenue reserve	**3,266**	3,379
	Total equity shareholders' funds	**82,649**	91,884
19	**Net asset value per ordinary share**	**405.24p**	466.53p

These accounts were approved by the Board of directors on 5 November 2002.

I M Trotter
M B Moule
} Directors

The notes on pages 21 to 29 form part of these accounts.

Cash Flow Statement

for the year ended 30 September 2002

Notes		2002 £'000	2002 £'000	2001 £'000	2001 £'000
20	**Net cash inflow from operating activities**		**4,547**		5,398
	Servicing of finance				
	Interest paid	**(1,794)**		(1,975)	
	Net cash outflow from servicing of finance		**(1,794)**		(1,975)
	Taxation				
	UK tax paid	**–**		(46)	
	Net tax paid		**–**		(46)
	Financial investment				
	Purchase of investments	**(48,896)**		(47,905)	
	Sales of investments	**43,110**		48,411	
	Net cash (outflow)/inflow from financial investment		**(5,786)**		506
	Equity dividends paid		**(2,964)**		(2,856)
	Financing				
	Issue of shares	**3,499**		–	
	Purchases of own shares	**–**		(519)	
	Drawdown/(repayment) of short term loan	**2,600**		(6,421)	
	Drawdown of three year term loan	**–**		6,000	
			6,099		(940)
	Increase in cash		**102**		87
21	**Reconciliation of net cash flow to movement in net debt**				
	Increase in cash as above		**102**		87
	Cash (inflow)/outflow from (increase)/decrease in loans		**(2,600)**		421
	Exchange movements		**(4)**		10
	Movement in net debt		**(2,502)**		518
	Net debt at 1 October		**(22,251)**		(22,769)
	Net debt at 30 September		**(24,753)**		(22,251)

The notes on pages 21 to 29 form part of these accounts.

Notes to the Accounts

1 **Accounting policies**

a Basis of accounting

The accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the SORP).

All of the Company's operations are of a continuing nature.

b Valuation of fixed asset investments

Listed investments in Great Britain are valued according to the prices issued by the London Stock Exchange, being the closing mid-market prices for all investments other than FTSE 100 and FTSE 100 reserve list constituents, for which the last traded prices are used. Overseas listed investments and investments which are quoted but are unlisted are valued at their closing or middle market prices as issued by various sources.

Unquoted investments are valued by the directors taking into account the information available on the investee companies and funds held by the Company.

c Capital gains and losses

Realised and unrealised capital gains and losses, together with exchange differences arising on the translation of foreign currency assets and liabilities on investments, are dealt with in the reserves.

d Income

Dividends receivable from equity shares are credited to the revenue account on an ex-dividend basis. Bank deposit interest is accounted for on an accruals basis. Franked investment income is shown net of the related tax credits. Underwriting commission is recognised when the issue takes place.

e Expenses and interest payable

All expenses and interest payable are accounted for on an accruals basis. All administrative expenses, including the management fee and interest payable, are charged to the revenue account. Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the proceeds of the investment.

f Deferred taxation

Financial Reporting Standard 19 has been adopted for the period ended 30 September 2002. No restatement of prior year comparatives is required.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date other than those differences regarded as permanent. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

g Foreign currency

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rate. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rate ruling on that date.

h Financial instruments

The Company has not utilised any derivative instruments in the year under review. The Company has taken advantage of the exemption allowed under Financial Reporting Standard 13 and excluded short term debtors and creditors from disclosures under financial instruments where allowed (see note 15 below).

Notes to the Accounts

continued

2	Total capital (losses)/gains from investments	2002 £'000	2001 £'000
	Realised gains based on historical cost	**3,924**	10,201
	Amounts recognised as unrealised in previous years	**1,967**	(2,322)
	Realised gains based on carrying value at previous balance sheet date	**5,891**	7,879
	Net movement in unrealised (depreciation)/appreciation	**(18,508)**	(12,609)
	Net (loss)/gain on foreign exchange	**(4)**	10
		(12,621)	(4,720)

3	Income from fixed asset investments	2002 £'000	2001 £'000
	Franked		
	Listed investments	**5,288**	6,034
	Unquoted	**38**	38
		5,326	6,072
	Unfranked – listed		
	Dividend income	**47**	285
	Scrip dividends	**134**	35
	Interest income	**154**	130
		5,661	6,522

4	Other interest receivable and similar income	2002 £'000	2001 £'000
	Deposit interest	**20**	32
	Stock lending fees	**10**	52
	Underwriting commission	**104**	–
		134	84

At 30 September 2002 the total value of securities on loan by the Company for stock lending purposes was £453,000 (2001: £314,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2002 was £5,893,000 (2001: £11,294,000).

5	**Management fee** (all charged to revenue)	2002 £'000	2001 £'000
	Management fee	**659**	644
	Irrecoverable VAT thereon	**104**	101
		763	745

A summary of the terms of the management agreement is given in the Directors' Report on page 12.

Notes to the Accounts

continued

6	Other administrative expenses	2002 £'000	2001 £'000
	Directors' fees (see note 7)	**53**	48
	Auditors' remuneration for audit services	**11**	10
	Other expenses payable to the management company	**52**	7
	Other expenses	**93**	92
	AITC "it's" marketing campaign	–	34
	Irrecoverable VAT	**22**	13
		231	204

Other expenses payable to the management company relate to marketing and share plan administration services.

7 Directors' emoluments

The directors' emoluments stated in note 6 are those actually paid by the Company. However, during the year one director was paid by Henderson Global Investors (Holdings) plc and its subsidiaries ("Henderson") for the provision of services to Lowland Investment Company plc. Under the Companies Act 1985 it is necessary to state the proportion of the emolument received from Henderson which relates to the management of the Company, even though the Company does not pay this and is not directly involved in its determination. The Company has been informed that the applicable proportion of the emolument paid by Henderson to the director for services to the Company in the year (including performance related bonus) was £5,000 (2001: £6,000). This amount, together with the amounts payable directly by the Company to the directors, is included in the analysis below:

	2002 £'000	2001 £'000
Directors' fees paid by the Company to directors	**43**	39
Directors' fees paid by the Company to third parties	**10**	9
Total directors' fees paid by the Company	**53**	48
Salaries and other benefits – paid by Henderson	**3**	3
Performance related bonus – paid by Henderson	**2**	3

In addition pension contributions are paid by Henderson on behalf of the Henderson employee to a defined non-contributory pension scheme. For the current year this payment was less than £500 (2001: Nil).

8	Interest payable	2002 £'000	2001 £'000
	On debenture repayable wholly or partly after five years	**675**	675
	On bank loans and overdrafts repayable within one year	**738**	1,299
	On bank loans repayable between one and five years	**384**	99
		1,797	2,073

Notes to the Accounts
continued

9	Taxation on net return on ordinary activities	2002 £'000	2001 £'000
	a Analysis of charge in the year		
	UK corporation tax at 30% (2001: 30%)	–	–
		–	–

b Factors affecting taxation charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2002 £'000	2001 £'000
Net revenue on ordinary activities before taxation	**3,004**	3,584
Corporation tax at 30% (2001: 30%)	**901**	1,075
Franked dividend receipts not chargeable to corporation tax	**(1,598)**	(1,821)
Non taxable stock dividends	**(40)**	(11)
Excess expenses	**724**	741
Income taxable in different periods	**7**	4
Expenses not deductible for tax purposes	**6**	12
Taxation on net return on ordinary activities	–	–

c Provision for deferred taxation

No provision for deferred taxation has been made in the current year or the prior year.

d Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £2,166,000 (2001: £1,442,000) arising as a result of excess management expenses and excess business charges. These expenses could only be utilised if the Company were to generate taxable profits in the future. It is considered too uncertain that the Company will generate such profits and therefore no deferred tax asset has been recognised.

10 Return per ordinary share

Revenue return per ordinary share is based on the net return on ordinary activities after taxation of £3,004,000 (2001: £3,584,000) and on the weighted average 19,746,986 ordinary shares in issue during the year (2001: 19,709,041). Capital return per ordinary share is based on net capital losses of £12,621,000 (2001: £4,720,000 loss) and on the weighted average 19,746,986 ordinary shares in issue during the year (2001: 19,709,041).

11	Fixed asset investments – portfolio valuation	£'000
	Valuation at 1 October 2001	**115,385**
	Unrealised depreciation at 1 October 2001	**13,828**
	Cost of investments at 1 October 2001	**129,213**
	Purchases at cost	**48,597**
	Sales at cost	**(41,439)**
	Cost of investments at 30 September 2002	**136,371**
	Unrealised depreciation at 30 September 2002	**(30,369)**
	Valuation at 30 September 2002	**106,002**

Notes to the Accounts
continued

12	**Debtors**	**2002 £'000**	2001 £'000
	Sales for future settlement	**2,492**	239
	Prepayments and accrued income	**1,136**	1,032
	Taxation recoverable	**146**	140
		3,774	1,411

13	**Creditors:** amounts falling due within one year	**2002 £'000**	2001 £'000
	Unsecured sterling loans and overdrafts	**13,100**	10,500
	Purchases for future settlement	**-**	433
	Tax payable	**-**	–
	Dividend on ordinary shares	**1,876**	1,723
	Debenture interest	**168**	168
	Other creditors	**330**	337
		15,474	13,161

14	**Creditors:** amounts falling due after more than one year	**2002 £'000**	2001 £'000
	Repayable between one and two years: three year unsecured sterling loan	**6,000**	6,000
	Redeemable after more than five years: 11¼% debenture stock 2010, secured by a floating charge over the Company's assets.	**6,000**	6,000
		12,000	12,000

15 Derivatives and other financial instruments

a Management of risk

The Company's financial instruments comprise:

- Equity shares held in accordance with the Company's objectives and policies.
- Short term loans drawn down to finance the Company's investment operations.
- Debenture stock issued to finance the Company's investment operations.
- Cash, liquid resources and short term debtors and creditors that arise directly from its investment operations.

The risks arising from these financial instruments are due to fluctuations in market prices, interest rate risk, foreign currency risk and liquidity risk. The Board's policy for managing these risks is summarised below:

Market price risk

An investment trust is exposed to market risk due to fluctuations in the market prices of the investments held in its portfolio. It is the Board's policy to hold an appropriate spread of investments in the portfolio with the appropriate industry sector weightings in order to reduce the risk arising from factors specific to a particular country or sector. The selection of stocks from small, medium and large companies is another factor which acts to reduce market price risk. The fund manager actively monitors market prices throughout the year and reports to the Board which meets regularly in order to consider investment strategy.

Interest rate risk

The Company's floating rate loans are short term and therefore there is no material risk due to interest rate fluctuations.

15 Derivatives and other financial instruments (continued)

Foreign currency risk

The Company's total return and balance sheet can be affected by fluctuations in foreign currency exchange rates. It is the Board's policy to minimise this risk, however from time to time the Company will hold foreign currency cash balances and there will be foreign currency balances due to and receivable from brokers. These assets and liabilities arise from the Company's investing activities. The exposure is short term and therefore not material.

Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. The maturity of the Company's existing borrowings are set out in part c to this note.

b Risk profile of financial assets and financial liabilities

Currency exposures

A portion of the Company's financial assets are denominated in currencies other than sterling with the effect that the balance sheet and total return can be affected by currency movements.

Currency	Monetary assets £'000	Monetary liabilities £'000	Net monetary assets £'000
Euro	**3,223**	**–**	**3,223**
Sterling	**106,900**	**(27,474)**	**79,426**
Total net assets	**110,123**	**(27,474)**	**82,649**

Interest rate risk profile of financial assets and financial liabilities

The Company's financial assets comprise equity shares, which neither pay interest nor carry a maturity date, fixed interest securities and bank balances. The interest rate profile of the fixed interest securities and bank balances at 30 September 2002 and 2001 was:

	Fixed rate financial assets 2002 £'000	Floating rate financial assets 2002 £'000	**Fixed rate financial assets 2001 £'000**	Floating rate financial assets 2001 £'000
Sterling	**1,623**	347	**1,324**	249

The weighted average interest rate of the fixed rate financial assets is 2.768% (2001: 2.924%). The weighted average period for which interest rates on the fixed rate financial assets are fixed is 3 years and 6 months (2001: 4 years and 6 months).

The interest rate profile of the Company's financial liabilities at 30 September 2002 and 2001 was:

	Floating rate financial liabilities 2002 £'000	**Fixed rate financial liabilities 2002 £'000**	**Total 2002 £'000**	Floating rate financial liabilities 2001 £'000	Fixed rate financial liabilities 2001 £'000	Total 2001 £'000
Sterling	**13,100**	**12,000**	**25,100**	10,500	12,000	22,500

The weighted average interest rate of fixed rate financial liabilities is 8.827% (2001: 8.827%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 4 years and 9 months (2001: 5 years and 10 months).

c Maturity of financial liabilities	**2002 £'000**	2001 £'000
In one year or less, or on demand	**13,100**	10,500
Between one and two years	**6,000**	6,000
In more than five years	**6,000**	6,000

Notes to the Accounts

continued

15 Derivatives and other financial instruments (continued)

d Loan facilities

An unsecured, committed, multicurrency loan facility of £24 million is available from The Royal Bank of Scotland at an interest rate of LIBOR plus 0.375% plus cost of money. At 30 September 2002 an amount of £13,100,000 had been drawn down on this facility. In addition the Company has an uncommitted undrawn overdraft facility with a sub-custodian, the extent of which is determined by the sub-custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company (2001: uncommitted undrawn overdraft facility of £5 million). The terms of both the above facilities are subject to annual review. An unsecured £6 million loan, repayable on 30 June 2004, at a fixed interest rate of 6.404% has been drawn down with the Royal Bank of Scotland.

e Fair values of financial assets and financial liabilities

All of the Company's assets are held at fair value.

Financial liabilities used to finance the Company's investments:

	Book value 2002 £'000	**Fair value 2002 £'000**	Book value 2001 £'000	Fair value 2001 £'000
Short term sterling loan	**13,100**	**13,100**	10,500	10,500
11.25% debenture stock 2010	**6,000**	**7,969**	6,000	8,032
Three year sterling loan	**6,000**	**5,942**	6,000	6,103

The fair value of the 11.25% debenture stock 2010 is calculated by reference to the market value at 30 September 2002. The fair value of the three year sterling loan is calculated using discounted cash flow techniques.

16 Called up share capital

	2002 £'000	2001 £'000
Authorised:		
30,000,000 (2001: 30,000,000) ordinary shares of 25p each	**7,500**	7,500
Allotted, issued and fully paid:		
20,395,205 (2001: 19,695,205) ordinary shares of 25p each	**5,099**	4,924

During the year the Company allotted 700,000 ordinary shares of 25p each. Details of the allotments are given in the Directors' Report on page 12.

17 Reserves

	Share Premium £'000	Capital Redemption Reserve £'000	Realised Reserve £'000	Unrealised Reserve £'000	Revenue Reserve £'000
At 1 October 2001	778	1,007	95,624	(13,828)	3,379
Transfer on disposal of investments	–	–	(1,967)	1,967	–
Gains/(losses) on fixed asset investments	–	–	5,891	(18,508)	–
Foreign exchange loss	–	–	(4)	–	–
Issue of shares	3,325	–	–	–	–
Expenses of share issue	(1)	–	–	–	–
Retained loss for the year	–	–	–	–	(113)
At 30 September 2002	4,102	1,007	99,544	(30,369)	3,266

The reserve for unrealised profits at 30 September 2002 includes an unrealised gain of £701,000 (2001: £708,000) in respect of unquoted investments.

Notes to the Accounts

continued

18	Reconciliation of movement in shareholders' funds	2002 £'000	2001 £'000
	Net revenue return on ordinary activities after taxation for the year	**3,004**	3,584
	Dividends	**(3,117)**	(2,894)
		(113)	690
	Decrease in reserves	**(12,621)**	(4,720)
	Issue of shares	**3,499**	–
	Purchase of own shares	–	(519)
	Net decrease in shareholders' funds	**(9,235)**	(4,549)
	Shareholders' funds at 1 October	**91,884**	96,433
	Shareholders' funds at 30 September	**82,649**	91,884

19 Net asset value per ordinary share

The net asset value per ordinary share is based on net assets attributable to ordinary shares of £82,649,000 (2001: £91,884,000) and on 20,395,205 ordinary shares in issue at 30 September 2002 (2001: 19,695,205).

The movement during the year of the assets attributable to the ordinary shares were as follows:

	£'000
Total net assets at 1 October 2001	**91,884**
Total net loss on ordinary activities after taxation	**(9,617)**
Dividends	**(3,117)**
Issue of shares	**3,499**
Total net assets at 30 September 2002	**82,649**

20	Reconciliation of net revenue on ordinary activities before taxation to net cash inflow from operating activities	2002 £'000	2001 £'000
	Net revenue before interest payable and taxation	**4,801**	5,657
	Increase in accrued income	**(104)**	(182)
	(Increase)/decrease in other debtors	**(4)**	28
	Decrease in creditors	**(10)**	(2)
	Stock dividends included in investment income	**(134)**	(35)
	Tax on unfranked investment income	**(2)**	(68)
	Net cash inflow from operating activities	**4,547**	5,398

21	Analysis of changes in net debt	At 1 October 2001 £'000	Cashflow £'000	Exchange movements £'000	At 30 September 2002 £'000
	Cash at bank	249	102	(4)	**347**
	Debt falling due within one year	(10,500)	(2,600)	–	**(13,100)**
	Debt falling due between one and two years	(6,000)	–	–	**(6,000)**
	Debt falling after more than five years	(6,000)	–	–	**(6,000)**
		(22,251)	(2,498)	(4)	**(24,753)**

Notes to the Accounts
continued

22 Contingent liabilities

At 30 September 2002 there were contingent liabilities in respect of underwriting commitments of £3,450,000 (2001: Nil). As at 5 November 2002 there were no contingent liabilities.

23 Related party transactions

Under the terms of an agreement dated 19 February 1996 the Company appointed wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") to provide investment management, accounting, secretarial, administrative and UK custody services. Henderson has contracted Cogent Investment Operations Limited ("Cogent") to provide accounting, administrative and UK custody services. Prior to 2 September 2002 Cogent was a wholly owned subsidiary of Henderson. After that date Cogent has been wholly independent of Henderson.

Details of the fee arrangements for these services are given in the Directors' Report on page 12. The total of the fees payable under this agreement to Henderson in respect of the year ended 30 September 2002 was £659,000 excluding VAT (2001: £644,000), of which £138,000 was outstanding at 30 September 2002 (2001: £146,000).

In addition to the above services Henderson has provided the Company with share plan administration and marketing services during the year. The total fees payable for these services for the year ended 30 September 2002 amounted to £52,000 excluding VAT (2001: £7,000), of which £14,000 was outstanding at 30 September 2002 (2001: £7,000).

Notice of Annual General Meeting

Notice is hereby given that the forty-second Annual General Meeting of Lowland Investment Company plc will be held at 4 Broadgate, London EC2M 2DA on Tuesday, 17 December 2002 at 3.00pm for the purpose of transacting the following business of the Company:

Ordinary Business

1 To receive the Directors' Report and Audited Accounts for the year ended 30 September 2002.

2 To declare a final dividend of 9.20p per ordinary share.

3 To re-elect Mr M B Moule as a director.

4 To re-elect Mr I M Trotter as a director.

5 To re-appoint PricewaterhouseCoopers as registered auditors to the Company and to authorise the directors to determine their remuneration.

Special Business

To consider, and if thought fit, pass the following resolutions:

As an Ordinary Resolution

6 THAT the Board be and is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £509,880 (or 2,039,520 ordinary shares of 25p each, being 10% of the issued share capital at 5 November 2002) PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. The directors may only use this authority when it is advantageous to the Company's existing shareholders.

As Special Resolutions

7 THAT, subject to the passing of the previous resolution, the Board be and is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited:

(a) to the allotment of equity securities up to an aggregate nominal value of £509,880 (or 2,039,520 ordinary shares, being 10% of the issued share capital at 5 November 2002);

(b) to the allotment of equity securities at a price of not less than net asset value per share; and

(c) and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

8 THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 25p each in the capital of the Company PROVIDED THAT:

(a) the maximum number of shares which may be purchased is 14.9% of the Company's issued ordinary share capital at the date of the Annual General Meeting (equivalent to 3,038,885 ordinary shares at the date of this notice);

(b) the maximum price (exclusive of expenses) which may be paid for a share shall not exceed 105% of the average of the middle market quotations for the shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase;

Notice of Annual General Meeting
continued

(c) the minimum price (exclusive of expenses) which may be paid for a share shall be 25p, being the nominal value per share; and

(d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may, before such expiry, enter into a contract to purchase shares under which such purchases will or may be completed or executed wholly or partly after the expiration of this authority and may make a purchase of shares in pursuance of any such contract.

By order of the Board

K M Burwood FCIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
5 November 2002

Registered office:
4 Broadgate
London
EC2M 2DA

Notes

- A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

- A form of proxy is enclosed and to be valid must be lodged with the Registrar of the Company not less than forty-eight hours before the time fixed for the meeting. If Shareholders so wish, the form of proxy may be returned in an envelope addressed to Computershare Investor Services PLC, FREEPOST, SWB 1002, PO Box 1075, Bristol, BS99 3ZZ.

- The completion of the form of proxy will not preclude shareholders from attending and voting in person at the meeting.

- Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, only those shareholders registered in the Register of Members of the Company at 3.00pm on 15 December 2002 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes in entries on the relevant register of securities after 3.00pm on 15 December 2002 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

- This notice is sent for information only to debenture stock holders who are not entitled to attend or vote at the meeting.

- The Register of Directors' Interests kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the Annual General Meeting.

Investor Information

Lowland Investment Company plc is an Investment Trust company listed on the London Stock Exchange. Its business is to invest in the shares of other companies chosen by the fund manager in accordance with the Company's Objective.

The Company's investment portfolio is managed by Henderson Global Investors, part of the AMP group of companies. Henderson Global Investors has won a number of awards for investment trust excellence. Henderson Global Investors is authorised and regulated by the Financial Services Authority, while the Company is a member of the Association of Investment Trust Companies (AITC).

Investing in Lowland

Ordinary shares in Lowland may be bought or sold directly through a stockbroker, accountant, other independent financial adviser, or through a number of banks or building societies. Alternatively, shares may be bought through the Henderson Investment Trust Share Plan and the Henderson ISA.

Henderson Investment Trust Share Plan

Investing via the Share Plan enables an investor to make regular savings from £50 per month or per quarter or to invest a lump sum of a minimum of £500 into the Company. A Share Exchange Service is provided by Henderson that offers an economical way to sell existing UK company shares, unit trusts or gilts and to invest the proceeds in the Company. Half-yearly valuations and tax certificates are sent to Share Plan investors with a complimentary newsletter. In addition, participants in the Share Plan receive all Company information and are entitled to attend general meetings of the Company.

Henderson ISA

Investments in shares made via an ISA do not attract tax either on dividend income or on capital growth.

Investments may be made directly into Lowland through the Henderson ISA. Investors are able to make regular savings from £100 per month, or lump sum investments from £2,000. Half-yearly valuations are sent to ISA investors with a complimentary newsletter.
In addition, participants in the ISA receive all Company information and are entitled to attend general meetings of the Company.

Further information on Share Plan, ISAs and transferring your PEP to Lowland

Information on how to invest through the Share Plan or an ISA and how to transfer an existing PEP to a PEP investment in Lowland shares is available at **www.lowlandinvestment.co.uk**

Alternatively, please contact your financial adviser or call the Investor Services Department on freephone 0800 832 832 Please call (44) 20 7818 1818 if you are calling from abroad. You may e-mail Henderson Global Investors at the following address: **itsenquiries@henderson.co.uk**

Please remember that the value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Tax assumptions may change if the law changes and the value of relief will depend upon your individual circumstances.

Disability Act

Copies of this Report and Accounts or other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, either Braille or on audio tape or larger type as appropriate.

You can contact our Registrars, Computershare Investor Services PLC, which have installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for the Deaf) the number is 0800 959 598.

For investors through the Henderson Investment Trust Share Plan, ISA or PEP, a textphone telephone service is available on 020 7850 5406. This service is available during normal business hours.

Investor Information
continued

Capital Gains Tax Information
The calculation of the tax on chargeable gains will depend on personal circumstances. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

For information, the market price of the Company's shares at the close of business on 31 March 1982 was 29.16667 pence per ordinary 25p share (adjusted for 2 for 1 bonus issue on 29 July 1985).

Annual General Meeting
The Annual General Meeting will be held at 3.00pm on 17 December 2002. A notice of this meeting setting out the business that will be proposed is on pages 30 and 31. It is hoped that shareholders in the Company will take this opportunity to meet the directors and hear a report from the fund manager on the progress of your Company.

Shown below is a map of the location of Henderson Global Investors where the Annual General Meeting will be held.

Information
The share price, net asset value and other information can be found on the website: **www.lowlandinvestment.co.uk**
The net asset value is published daily. The market price of the Company's ordinary shares is quoted in the Financial Times and other leading newspapers. The London Stock Exchange Daily Official List (SEDOL) code is 053 6806. Investors with share certificates (ie not those in the Share Plan or an ISA or PEP scheme) can check their shareholding with our registrars, Computershare Investor Services PLC. The link can be found via **www.computershare.com**

Results
The Company announces full year results in November and half year results in May.

Dividends
The Company pays an interim dividend in June and a final dividend in December.

■ Henderson Global Investors,
4 Broadgate, London EC2M 2DA

Investor Information
continued

Analysis of Ordinary Shareholders
at 30 September 2002

	Number of Shareholders	Number of Shares held	%
Individuals*	4,292	7,056,438	34.60
Banks & Nominees	1,354	12,492,858	61.25
Other Companies	129	687,546	3.37
Insurance Companies	12	66,947	0.32
Investment Trusts	7	30,206	0.15
Other Corporate Bodies	5	61,210	0.31
	5,799	20,395,205	100.00

*Includes individuals who have invested through the Henderson Investment Trust Share Plan, ISAs and PEPs.

Investor Information
continued

Registered Office
4 Broadgate
London EC2M 2DA
Telephone: 020 7818 1818
Facsimile: 020 7818 1819

Auditors
PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

Registered Number
Registered in England and Wales No. 670489

Stockbroker
Cazenove
12 Tokenhouse Yard
London EC2R 7AN

Secretary
Henderson Secretarial Services Limited,
represented by K M Burwood FCIS

Solicitor
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Registrar
Computershare Investor Services PLC
P O Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone: 0870 702 0010

Bankers
The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

A MEMBER OF THE ASSOCIATION OF INVESTMENT TRUST COMPANIES

Glossary of Terms

Discount

The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

Premium

The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

Dividend Yield

The annual dividend expressed as a percentage of the share price.

Gearing

The borrowings, including the debenture, expressed as a percentage of the Company's net assets. Gearing increases the size of the change in net asset value per share resulting from increases or decreases in the Company's gross assets.

Net Asset Value

The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. To calculate the net asset value per ordinary share divide net asset value by the number of shares in issue.

Record Date

The date on which shareholders must be registered on the Main Shareholder Register in order to qualify for the dividend.

Ex-Dividend

Shares bought or sold ex-dividend do not have the right to the forthcoming dividend payment. Shares will go ex-dividend two days before the record date.

Cum-Dividend

Shares bought or sold cum-dividend are entitled to the next dividend payment.