Lowland Investment Company plc

Annual Report and Financial Statements for the year ended 30 September

2010

Lowland Investment Company plc

Objective

The Company aims to give shareholders a higher than average 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 predominantly UK companies of differing sizes with normally not more than half by value coming from the largest 100 UK companies and the balance from small and medium sized companies.

Benchmark

The FTSE All-Share Total Return.

A factsheet which is updated each month may be accessed on www.lowlandinvestment.com

Key data

Per ordinary share	**30 September 2010**	30 September 2009	Change %
Net asset value#	**770.3p**	657.3p	+17.2
Share price#	**699.5p**	610.0p	+14.7
Net revenue return	**22.5p**	22.7p	-0.9
Total return	**139.5p**	8.4p	
First interim dividend	**10.0p**	10.0p	–
Second Interim dividend	**17.0p**	16.5p	+3.0
Gearing*	**12.6%**	11.7%	
Total expense ratio (excluding VAT write back)**	**0.70%**	0.83%	

Excluding reinvested income.
* Defined here as investments as a percentage of equity shareholders' funds minus 100.
** Defined here as total management and administrative expenses, as a percentage of the average shareholders' funds at the beginning and end of the year.

Performance

To 30 September 2010	1 year %	5 years %	10 years %
Net asset value total return(1)	21.9	15.4	113.3
Share price total return(1)	19.7	7.5	138.4
Peer group net asset value total return(2)	14.7	15.3	53.9
FTSE All-Share Index (total return)(3)	12.5	24.7	31.9

(1) Source: AIC Information Services Ltd (net income reinvested).
(2) Source: AIC Information Services Ltd. The performance of the AIC UK Income & Growth Sector (arithmetic average).
(3) Source: AIC Information Services Ltd (gross income reinvested).

Dividend

The second interim dividend, in lieu of a final dividend, of 17.0p per ordinary share will be paid on 22 December 2010 to shareholders on the register of members at the close of business on 3 December 2010. The Company's shares will be quoted ex-dividend on 1 December 2010.

Historical record

30 September	Total return/(loss) per ordinary share in pence	Net revenue return per ordinary share in pence	Dividend in pence	Total net assets in £'000	Net asset value per ordinary share in pence
2010	**139.5**	**22.5**	**27.00**	**203,484**	**770.3**
2009	8.4	22.7	26.50	173,633	657.3
2008	(344.4)	33.0	26.50	178,411	675.4
2007	138.7	27.9	23.50	275,868	1044.3
2006	150.3	20.8	20.75	222,217	915.7
2005	200.2	18.2	19.25	190,695†	785.8†
2004	89.5	17.3	18.00	126,746†	603.5†
2003	133.0	15.6	17.00	107,721	520.5
2002	(48.7)	15.2	15.50	82,649	405.2
2001	(5.8)	18.2	14.75	91,884	466.5
2000	26.6	14.8	14.00	96,433	486.5

†Restated for changes in accounting policies. Years prior to 2004 have not been restated.

Contents

Chairman's Statement

During the year ended 30 September 2010, Lowland's net asset value per share rose by 17.2% to 770.3p. The revenue return per share fell by 0.9%. Total dividend payments, of 27.0p, will be an increase of 1.9% from last year.

Performance for the year to 30 September 2010

Over the year the Company's net asset value total return was 21.9% compared with the total return of 12.5% for our benchmark, the FTSE All-Share Index. The recovery in equities which began in March 2009 has continued. Some of the shares in our portfolio whose prices fell most sharply during 2008 have been the best performers since then. This has helped Lowland's relative performance over the period, although the recovery in our net asset value has not yet made up for the severe fall in 2008. However, in every year of the decade except for 2008, Lowland has outperformed its benchmark index. Its investment style has meant that despite occasional periods of short-term under-performance Lowland has a strong long-term record as shown in the chart on page 11.

Earnings and Dividends

The total dividend for the year will be 27.0p comprising a first interim dividend of 10p per share (2009:10p) followed by a second interim dividend of 17.0p per share (2009:16.5p). This is a total dividend increase of 1.9%. The revenue return per share for the year was 22.5p which is down slightly from last year's 22.7p as there was no further benefit from VAT reclaims during the year, which added 2.9p last year. We have therefore drawn on our Revenue Reserve to enable us to make a small increase in the dividend. During the years of strong earnings growth earlier in the decade we retained some of our earnings in our Revenue Reserve for this very purpose: so that the total dividend could be at least maintained in years when earnings were weak. Our projections for next year suggest that earnings will grow strongly. Most of the stocks held in the portfolio are generating cash, so our expectation is that earnings growth will lead to robust dividend increases next year. We expect at least to cover the dividend next year, and if our expectations prove correct, we would hope to be in a position to consider a further increase. After payment of the second interim dividend the total revenue reserve will be £2.8m compared with the cost of this year's dividend of £7.1m.

The second interim dividend will be paid on 22 December 2010 to shareholders on the register at 3 December 2010.

Expenses and Fees

The total expense ratio (TER) which is the management fee and other non-interest expenses as a percentage of shareholders' funds was 0.70% (2009: 0.83%). This reduction is due, in part, to the increase in the value of our portfolio in the year.

At its annual review of the management agreement, the Board decided to make certain changes which it has agreed with the Investment Manager, Henderson Global Investors ("Henderson").

The changes, which will take effect from 1 October 2010, are:

- A reduction in the Notice Period required to terminate the management contract from the current 12 months to 6 months, which is more in line with current practice in the investment trust sector.
- A change in the method of calculating the basic management fee payable from 0.5% of what has effectively been aggregate gross assets to 0.5% of aggregate net assets. Since Lowland normally operates with a degree of gearing, this will lead, all other things being equal, to a reduction in the basic management fee payable to Henderson.

At the same time, the Board has decided to introduce an incentive to Henderson, and in particular to the team allocated by Henderson to manage Lowland, to reward performance above Lowland's benchmark over three year periods.

This performance fee will be 15% of any out-performance on a total return basis of Lowland's benchmark (currently the FTSE All-Share Index) by more than 10% (the "hurdle rate") over the average of the last three years. This fee, plus the basic fee of 0.5% of net assets described above, will be capped in any year at a total of 0.75% of net assets.

Chairman's Statement

continued

In the first year of operation, the year to 30 September 2011, the performance fee will be based on Lowland's performance over that one year. In the second year, it will be based on the average of the two years to 30 September 2012. In the year to 30 September 2013 and thereafter, it will be based on the average of the previous three years.

Any performance fee paid will be charged to the capital return column of the income statement whereas the management fee will continue to be charged to the revenue return.

Board

The Board composition will change over the coming two years. I will be retiring after the AGM in January 2012 and we will appoint a new director during the current financial year. Our aim is to refresh the Board but also ensure a continuity of approach.

Investment Review

The performance attribution for the year is set out on page 6. It shows that the medium and smaller sized companies have added the most value, while the FTSE 100 holdings have underperformed. The analysis needs to be treated carefully as the portfolio is not run in segregated pools. The largest companies are generally less economically sensitive. The exception among the largest companies is mining, in which we are underweight, but which have benefited from the global economic recovery. Our portfolio has instead profited from the economic recovery through its holdings in medium and small sized industrial companies. It would increase the overall risk in the portfolio to have large exposures to cyclical shares in both large and small companies. The large companies in the portfolio include the oil and pharmaceutical companies. They bring some defensive qualities to the overall portfolio. They underperformed this year, having held up much better in 2008. The Board and the Portfolio Manager attempt to reduce risk through a genuinely diversified portfolio which means a relatively long list of holdings. This means stock-specific risk is reduced and it allows the Portfolio Manager to invest in the early stages of an expected recovery, when the returns can be high but the risks are greater. The upturn in the economy has meant that these recovery situations have had a beneficial effect on the portfolio over the last year.

Borrowings

As at 30 September 2010 we had increased our overall level of borrowings to £28m from £23m a year earlier. The £23m at 30 September 2009 included a £6m 11.25% debenture which we redeemed on 1 July 2010. Since the period end, a new two-year loan facility of £33m has been negotiated to replace our existing one year loan facility of £32m. This was done on marginally better terms but the redemption of the debenture in July 2010 means that the overall interest rate which we pay on our borrowings will be considerably less than in recent years. The gearing at the year end was 12.6% and we expect to retain some gearing for as long as we consider that equities offer good value.

Annual General Meeting

The Annual General Meeting will be held at the offices of Henderson Global Investors, 201 Bishopsgate, London on Wednesday, 19 January 2011 at 12.00 noon. Full details of the business to be conducted at the meeting are set out in the Notice of the Meeting which has been sent to shareholders with this report. As usual our Portfolio Manager, James Henderson, will be making a presentation and all shareholders are most welcome to attend.

Outlook

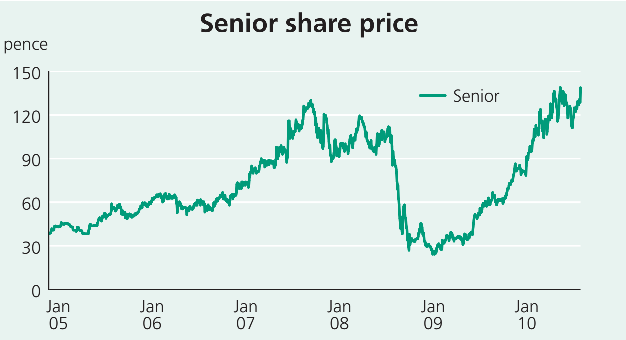
The global economy is expected to continue to grow. For the UK this growth will be relatively weak, as the spending cuts combined with tax increases reduce demand. This is necessary for the imbalances in the economy to unwind but it will mean tough trading conditions for many UK orientated companies. Lowland's portfolio is focused on companies which we believe will not only survive but will also expand. These companies serve a wide range of markets, and in many cases offer their customers a unique proposition. The portfolio is not a proxy for the UK economy; rather it is a collection of strong companies that bring to the portfolio a diversified earnings profile and the prospect of good dividend growth. We therefore expect the recovery in Lowland's net asset value to continue.

John Hancox
Chairman
22 November 2010

Portfolio Manager's Report

Review

A global economic recovery has been underway since the second quarter of 2009. This has been a good background for equities, particularly cyclical businesses. It was these companies' share prices that were mainly responsible for the poor performance of Lowland in 2008. Their share prices may have suffered substantial falls, but the underlying businesses often did not suffer to the same extent. For instance, Senior Group's profits have grown over the period but the share price has been very volatile.

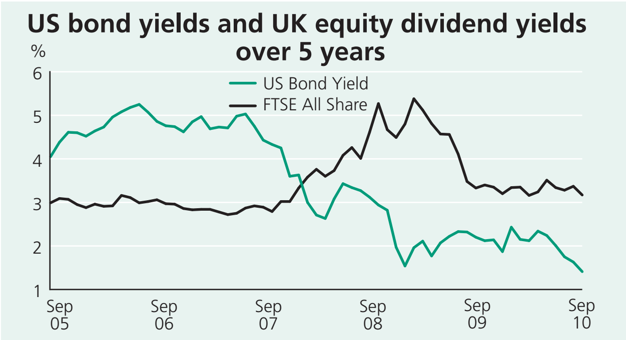


Source: Henderson Global Investors

The banking crisis did, however, change the environment for companies. The availability of finance contracted and, where it could be obtained, the margin at which it was offered was considerably higher than in the recent past. This made companies focus on cash generation. The most notable feature of the past year has been the marked strengthening of corporate balance sheets. Debt has been paid down and cash balances have grown. This will not continue at the current rate as we expect increased capital expenditure, acquisitions and dividends in coming years. It also means that if there is an unexpected slow down in the global economy companies are well positioned to withstand it. The high quality and strength of many companies are still not fully reflected in their share prices, despite their recovery from the low levels of last year.

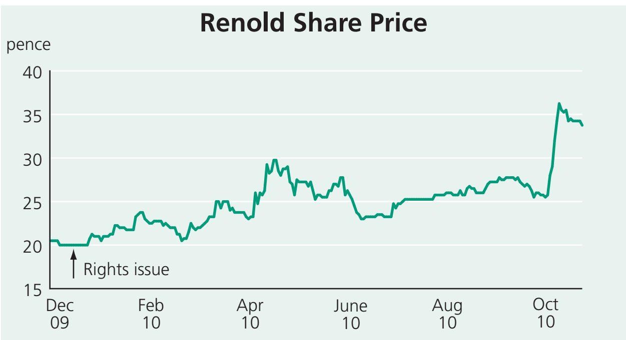
Portfolio Activity

Low share valuations and the economic recovery have led to growing corporate activity during the year. Successful cash bids were received for **Tomkins** and **Delta**. It is notable that both bids were for industrial companies and the buyers were financing them with dollar debt. If long term dollar interest rates remain low there will be more bids for UK companies. Equities appear very cheap when compared with bonds.



Source: Henderson Global Investors

The money we received from these bids has mainly been redeployed in the industrial sector. An example is the capital raising by **Renold**, the global chain manufacturer, which Lowland supported. Renold's rights issue reduced its debt and has allowed it to expand its global reach. This is leading to an improved order book and profit margin.



Source: Henderson Global Investors

Future Activity

The level of purchases and sales in the portfolio has been low over the last year. The borrowings have been

Portfolio Manager's Report
continued

increased from £23m to £28m but as the assets have risen in value, gearing is little changed, having risen from 11.7% to 12.6%. Over the coming months dealing activity is likely to remain low. The portfolio is a mix of large, medium and small sized companies that have very diversified activities.

The global economy is expected to grow despite the obvious headwinds. Companies with high quality, competitive products will see continued strong profits growth. Therefore it would be a mistake to sell holdings just because the share price has recovered in recent months. The valuations may be higher than a year ago but there will be further profit upgrades which will make the value of the shares apparent. Examples of globally competitive manufacturing companies in the portfolio would include **Croda**, the specialist chemicals business making health care products, **Senior** in aerospace and **Weir** the pump manufacturer. These show the diversity of the markets that these leading UK businesses are serving with high value added products. The objective is to find excellent businesses like these and add them to the portfolio over the coming year. It is also important to recognise when a stock is not of the quality we thought and to sell it. Markets in all areas will be intensely competitive. Weaker companies that do not have a strong product offering will be found out. Fortunately there are sufficient companies in the UK quoted sector with the right qualities.

Outlook

There is a general despondency about the UK economy but the problems can be exaggerated. The corporate sector in many areas is in good health with growing cash generation. Consumer activity may be subdued for a number of years as a result of public sector cuts, tax rises and the need to pay down debt. Meanwhile the export sector will grow as technology and innovation drive competitiveness. Lowland's portfolio is positioned to benefit from the export revival that is underway but it also has very little direct exposure to the UK consumer. This mix should result in a continuation of Lowland's strong recovery.

James Henderson
22 November 2010

Estimated Performance Attribution Analysis

(for the year ended 30 September 2010) – total returns compared to the FTSE All-Share Index

Contribution to Portfolio Performance

Equity portfolio	
Non FTSE 100 Share investments	17.3%
FTSE 100 Share investments	2.9%
Other factors	
Gearing	2.4%
Management fees and finance costs	-0.7%
Lowland Net Asset Value Total Return	**21.9%**
Benchmark (FTSE All-Share Index) Total Return	**12.5%**
Out-performance	**9.4%**

Source: Henderson Global Investors Limited

Twenty Largest Holdings

at 30 September 2010

Rank (2010)	Rank (2009)		Valuation 2009 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	**Valuation 2010 £'000**
1	(3)	Senior	6,362	–	(1,629)	7,768	**12,501**
2	(2)	Royal Dutch Shell	7,812	1,339	–	598	**9,749**
3	(1)	BP	9,401	1,833	–	(2,250)	**8,984**
4	(8)	Carclo	4,533	–	–	3,979	**8,512**
5	(18)	Croda	3,116	–	–	3,923	**7,039**
6	(4)	Aviva	6,049	636	–	(701)	**5,984**
7	(5)	GlaxoSmithKline	5,533	–	–	112	**5,645**
8	(10)	Meggitt	4,371	–	–	1,183	**5,554**
9	(7)	Vodafone	4,872	463	(708)	597	**5,224**
10	(*)	Canfor Pulp	1,407	–	–	3,719	**5,126**
11	(17)	Hiscox	3,127	1,640	–	143	**4,910**
12	(13)	GKN	3,502	–	(347)	1,588	**4,743**
13	(15)	Daily Mail & General	3,214	514	–	480	**4,208**
14	(9)	Hill & Smith	4,419	–	–	(368)	**4,051**
15	(14)	BHP Billiton	3,416	–	–	634	**4,050**
16	(11)	Interserve	4,353	212	–	(555)	**4,010**
17	(*)	Weir	1,694	–	–	1,863	**3,557**
18	(19)	H&T	3,081	–	–	315	**3,396**
19	(12)	HSBC	3,759	–	–	(373)	**3,386**
20	(*)	Severn Trent	971	1,526	–	781	**3,278**
			84,992	8,163	(2,684)	23,436	**113,907**

These investments total £113,907,000 or 49.7% of the portfolio.

* Not in the top 20 largest investments last year.

Investment Portfolio

at 30 September 2010

Investments	Market Value £'000	% of Portfolio
Oil & Gas Producers		**8.2**
Royal Dutch Shell	9,749	
BP	8,984	
†Baltic Oil Terminals	93	
Chemicals		**8.5**
Carclo	8,512	
Croda	7,039	
Elementis	2,917	
†Scapa	935	
Forestry & Paper		**2.9**
*Canfor Pulp	5,126	
Mondi	1,543	
Mining		**2.1**
BHP Billiton	4,050	
†Western Coal	556	
*Endeavour Mining	117	
Aerospace & Defence		**10.9**
Senior	12,501	
Meggitt	5,554	
Rolls-Royce	2,716	
BAE Systems	2,225	
Avon Rubber	1,440	
Hampson Industries	559	
Construction & Materials		**3.4**
Balfour Beatty	2,962	
Low & Bonar	2,004	
Marshalls	1,497	
Clarke (T)	761	
†Eleco	662	
Electronic & Electrical Equipment		**2.7**
Oxford Instruments	3,078	
Morgan Crucible	2,403	
TT Electronics	712	
General Industrials		**1.6**
Smith (David S)	1,951	
RPC	1,696	
Industrial Engineering		**7.6**
Hill & Smith	4,051	
Weir	3,557	
IMI	3,074	
Renold	2,433	
Castings	2,358	
†Clyde Process Solutions	650	
Severfield-Rowen	507	
†Chamberlin	464	
†Metalrax	254	
†Somero Enterprises	98	
Industrial Transportation		**3.5**
Stobart	2,469	
BBA Aviation	1,884	
Clarkson (Horace)	1,650	
Goldenport	1,339	
†Autologic	549	
Support Services		**3.5**
Interserve	4,010	
†Cape	2,589	
†Johnson Service	1,126	
†Augean	200	
†Begbies Traynor	147	
Automobiles & Parts		**2.1**
GKN	4,743	
Beverages		**1.3**
Diageo	3,047	
Food Producers		**1.9**
Unilever	1,841	
Dairy Crest	1,761	
Carr's Milling Industries	615	
Uniq	121	
Household Goods and Home Construction		**2.3**
Bellway	1,584	
†Churchill China	1,267	
Headlam	1,245	
Redrow	1,239	
Leisure Goods		**0.8**
Hornby	1,097	
Cosalt	421	
†Harvard	257	
Personal Goods		**0.2**
†Airea	495	
†Slimma	60	
Tobacco		**0.2**
Imperial Tobacco	474	
Health Care Equipment & Services		**0.6**
Consort Medical	1,326	
Pharmaceuticals & Biotechnolgy		**3.2**
GlaxoSmithKline	5,645	
AstraZeneca	1,617	
Food & Drug Retailers		**0.3**
Tesco	636	
General Retailers		**1.3**
†Jacques Vert	1,773	
Findel	726	
Topps Tiles	575	

Investment Portfolio continued

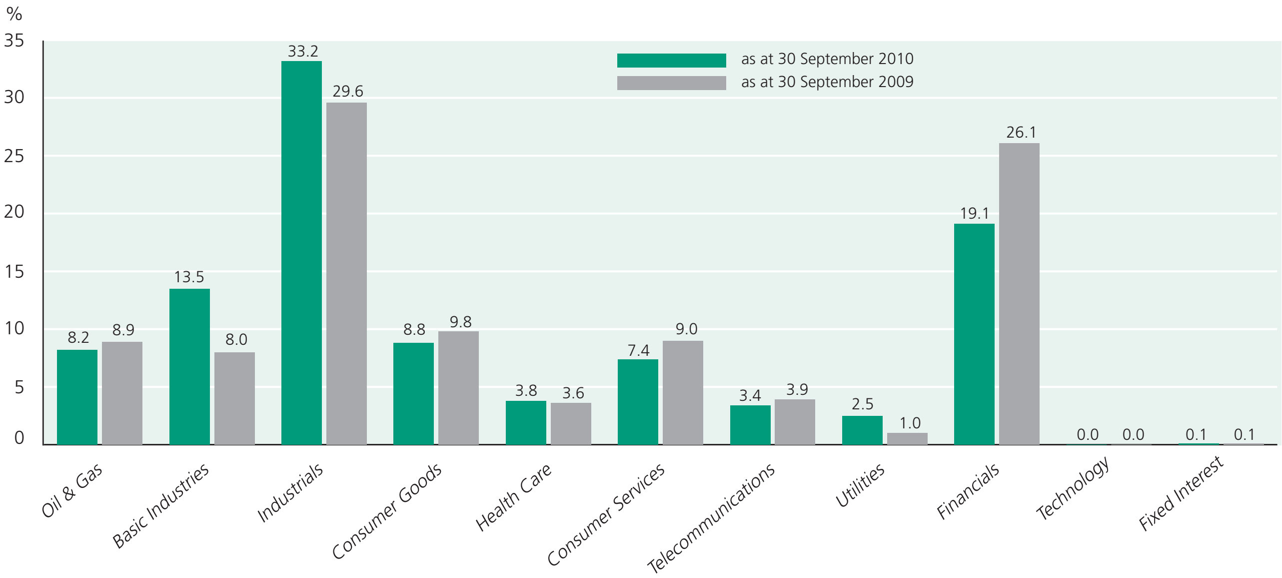
at 30 September 2010

Investments	Market Value £'000	% of Portfolio
Media		**3.9**
Daily Mail & General	4,208	
Pearson	2,710	
Reed Elsevier	1,614	
Yell	310	
Quarto	35	
Travel & Leisure		**1.9**
Marston's	2,431	
#Wadworth	1,125	
Holidaybreak	765	
Mobile Telecommunications		**3.4**
Vodafone	5,224	
Inmarsat Ventures	2,654	
Electricity		**0.7**
Scottish & Southern Energy	1,397	
†IPSA	189	
Gas, Water & Multiutilities		**1.8**
Severn Trent	3,278	
Northumbrian Water	832	
Banks		**1.5**
HSBC	3,386	
Equity Investment Instruments		**1.8**
Herald Investment	2,165	
Henderson Opportunities Trust	1,181	
Infrastructure India	779	
Financial Services		**3.7**
†H & T	3,396	
International Personal Finance	2,736	
Provident Financial	2,266	

Investments	Market Value £'000	% of Portfolio
Life Insurance / Assurance		**4.0**
Aviva	5,984	
Chesnara	1,666	
Legal & General	1,553	
Non-life Insurance		**6.3**
Hiscox	4,910	
Amlin	3,119	
Novae	2,310	
Chaucer	2,163	
†Abbey Protection	1,132	
†Tawa	492	
Hardy Underwriting	334	
Real Estate		**1.8**
St Modwen	1,997	
Mucklow	1,123	
Segro	1,078	
Software & Computer Services		**0.0**
Parity	34	
Fixed Interest		**0.1**
#Wadworth	156	
#Corporate Services	26	
TOTAL PORTFOLIO	**229,074**	**100.0**

† AIM stocks
* Overseas quoted stocks
# Unquoted investment.

Portfolio by Sector



Portfolio Analysis

at 30 September 2010

		United Kingdom %	Overseas %	Total 30 Sept 2010 %	FTSE All-Share 2010 %	Total 30 Sept 2009 %
Oil & Gas	Oil & Gas Producers	8.2	–	8.2	15.6	8.9
	Oil Equipment Services	–	–	–	0.6	–
		8.2	–	8.2	16.2	8.9
Basic Industries	Chemicals	8.5	–	8.5	0.5	5.2
	Forestry & Paper	0.7	2.2	2.9	0.1	0.8
	Industrial Metals & Mining	–	–	–	0.1	–
	Mining	2.0	0.1	2.1	11.6	2.0
		11.2	2.3	13.5	12.3	8.0
Industrials	Aerospace & Defence	10.9	–	10.9	1.9	7.0
	Construction & Materials	3.4	–	3.4	0.3	3.1
	Electronic & Electrical Equipment	2.7	–	2.7	0.3	1.8
	General Industrials	1.6	–	1.6	0.6	3.4
	Industrial Engineering	7.6	–	7.6	0.7	8.1
	Industrial Transportation	3.5	–	3.5	0.2	2.3
	Support Services	3.5	–	3.5	3.3	3.9
		33.2	–	33.2	7.3	29.6
Consumer Goods	Automobiles & Parts	2.1	–	2.1	0.2	1.8
	Beverages	1.3	–	1.3	3.1	1.4
	Food Producers	1.9	–	1.9	1.9	1.7
	Household Goods & Home Construction	2.3	–	2.3	1.9	3.8
	Leisure Goods	0.8	–	0.8	–	0.7
	Personal Goods	0.2	–	0.2	0.5	0.4
	Tobacco	0.2	–	0.2	3.9	–
		8.8	–	8.8	11.5	9.8
Heath Care	Health Care Equipment & Services	0.6	–	0.6	0.3	0.7
	Pharmaceuticals & Biotechnology	3.2	–	3.2	7.3	2.9
		3.8	–	3.8	7.6	3.6
Consumer Services	Food & Drug Retailers	0.3	–	0.3	3.0	0.3
	General Retailers	1.3	–	1.3	1.6	2.6
	Media	3.9	–	3.9	2.7	3.8
	Travel & Leisure	1.9	–	1.9	2.6	2.3
		7.4	–	7.4	9.9	9.0
Telecommunications	Fixed Line Telecommunications	–	–	–	1.0	–
	Mobile Telecommunications	3.4	–	3.4	5.0	3.9
		3.4	–	3.4	6.0	3.9
Utilities	Electricity	0.7	–	0.7	1.0	0.5
	Gas, Water & Multiutilities	1.8	–	1.8	2.7	0.5
		2.5	–	2.5	3.7	1.0
Financials	Banks	1.5	–	1.5	13.3	4.5
	Equity Investment Instruments	1.8	–	1.8	2.9	1.4
	Financial Services	3.7	–	3.7	1.9	3.3
	Life Insurance/Assurance	4.0	–	4.0	3.1	6.5
	Non-life Insurance	6.3	–	6.3	1.0	6.1
	Real Estate	1.8	–	1.8	1.5	4.3
		19.1	–	19.1	23.7	26.1
Technology	Software & Computer Services	–	–	–	1.3	–
	Technology Hardware & Equipment	–	–	–	0.5	–
		–	–	–	1.8	–
	Equities	97.6	2.3	99.9	–	99.9
	Fixed Interest	0.1	–	0.1	–	0.1
	Total at 30 September 2010	97.7	2.3	100.0	100.0	–
	Total at 30 September 2009	98.1	1.9	–	–	100.0

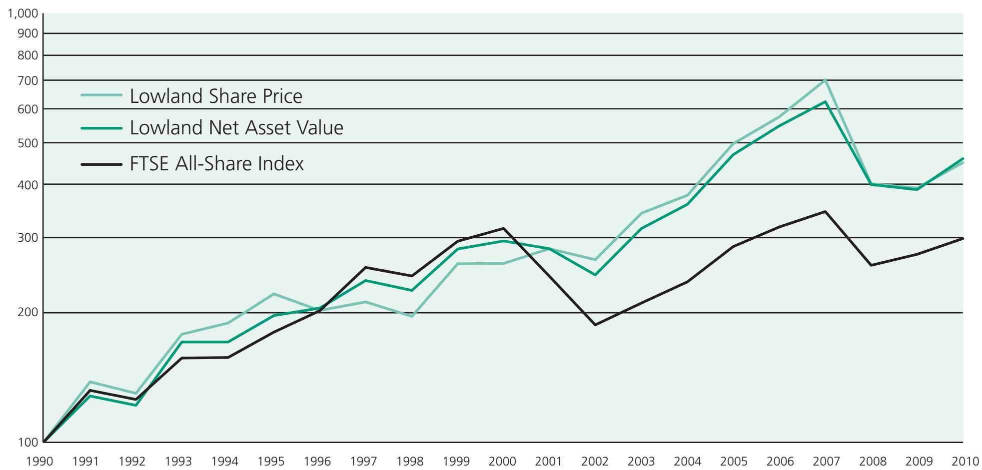
Historical Record

Year to 30 September	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Gross revenue £'000	5,834	6,606	5,795	5,810	6,634	7,653	8,514	9,726	12,326	8,135	**8,410**
Per ordinary share (pence):											
Net revenue	14.8	18.2	15.2	15.6	17.3	18.2	20.8	27.9	33.0	22.7	**22.5**
Dividend paid (net)*	14.00	14.75	15.50	17.00	18.00	19.25	20.75	23.50	26.50	26.50	**27.00**
Imputed Tax	1.55	1.64	1.72	1.89	2.00	2.14	2.31	2.61	2.94	2.94	**3.00**
Total dividend (gross)	15.55	16.39	17.22	18.89	20.00	21.39	23.06	26.11	29.44	29.44	**30.00**
Net assets attributable											
to ordinary shares £'m	96.4	91.9	82.6	107.7	126.7†	190.7†	222.2	275.9	178.4	173.6	**203.5**
Net asset value											
per ordinary share (pence)	486.5	466.5	405.2	520.5	603.5†	785.8†	915.7	1044.3	675.4	657.3	**770.3**
Share price (pence)	407.0	440.0	415.0	533.0	587.5	775.0	895.5	1091.0	625.0	610.0	**699.5**

Indices 2000 =100	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Net Asset Value Capital Return	100	96	83	107	124	162	188	215	139	135	**158**
Ordinary Share Price Capital Return	100	108	102	131	144	190	220	268	154	150	**172**
Net Dividend	100	105	111	121	129	138	148	168	189	189	**193**
FTSE All-Share Index Capital Return	100	77	59	67	75	91	101	109	82	87	**95**
Retail Prices Index	100	105	107	110	113	116	120	125	131	130	**136**

Source: Thomson Financial, Datastream and Henderson Global Investors, capital returns only
*Represents the total amount paid in respect of each financial year.
† Restated for changes in accounting policies. Years prior to 2004 have not been restated.

Share price, net asset value and the FTSE All-Share Index (capital return only) since 1990 to 30 September 2010 (1990 = 100)



Source: Thomson Financial, Datastream
1990 is the year that James Henderson was appointed Portfolio Manager

Directors

John P D Hancox FCA* (Chairman), is a non-executive director of Gartmore Fledgling Trust plc and a number of unlisted companies. He was appointed to the Board in 2000 and became Chairman at the conclusion of the 2004 AGM.

Karl S Sternberg*†, is a Director of JP Morgan Income & Growth Investment Trust Plc and Chief Executive of Oxford Investment Partners Limited. He is also a director of Friends Life and a Fellow of St Catherine's College, Oxford. He was formerly Chief Investment Officer for Deutsche Asset Management (Europe and Asia Pacific). He was appointed to the Board on 1 January 2009.

Rupert G M L Barclay ACA*†, is a partner of Cairneagle Associates LLP and a non-executive director of Dimension Data plc. He was formerly the director of Group Strategy at Reuters plc and Allied Domecq plc. He was appointed to the Board in 2000 and became Chairman of the Audit Committee in June 2008.

Kevin J Carter*†, is a director of Murray International Trust Plc and Legal and General Investment Management (Holdings) Ltd and is a member of the Investment Committee of the BBC Pension Scheme and a director of the Centrica Combined Common Investment Fund Limited. He is Chairman of Hermes GPE LLP. He was the Head of European Investment Practice for Watson Wyatt Limited and the former Chief Executive Officer of Old Mutual Asset Managers. He was appointed to the Board on 1 October 2009.

Peter J C Troughton*†, is Vice-Chairman of Archant Ltd and a non-executive director of a number of private companies. He is also a Partner of Spencer House Capital Management LLP. He was formerly a director of WH Smith Group plc and chief executive of Rothschild Asset Management. He was appointed to the Board in 1990.

* Independent non-executive director and a member of the Company's Management Engagement Committee and Nominations Committee, both of which are chaired by John Hancox.

† A member of the Company's Audit Committee, which is chaired by Rupert Barclay.

Investment Manager

Henderson Global Investors Limited is appointed to manage the investment portfolio in furtherance of the Company's objective. The terms of the appointment are given in the Directors' Report on pages 15 and 16.

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

Ben Lofthouse is the Deputy Portfolio Manager.

Wendy King, FCIS is the appointed representative of Henderson Secretarial Services Limited, the Corporate Secretary.

Henderson Global Investors Limited
201 Bishopsgate
London EC2M 3AE

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Facsimile: 020 7818 1819

Authorised and regulated by the Financial Services Authority.

Directors' Report

The directors present the audited financial statements of the Company and their report for the year ended 30 September 2010.

Business Review

The following review is designed to provide information primarily about the Company's business and results for the year ended 30 September 2010. The business review should be read in conjunction with the Chairman's Statement on pages 3 and 4 and the Portfolio Manager's Report on pages 5 and 6, which give a detailed review of the investment activities for the year and an outlook for the future.

a) Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006 and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 (formerly section 842 of the Income and Corporation Taxes Act 1988). It is required to seek HM Revenue & Customs approval of its status as an investment trust under the above-mentioned Section 1158 every year, and this approval will continue to be sought. Approval of the Company's status as an investment trust has been received in respect of the year ended 30 September 2009, although this approval is subject to there being no subsequent enquiries under Corporation Tax Self Assessment. The directors are of the opinion that the Company has continued to conduct its affairs in a manner that will enable it to continue to gain such approval.

The Company is not a close company.

The Company intends to continue to manage its affairs so that its investments fully qualify for a stocks and shares component of an ISA.

b) Investment objective

Objective

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

The Company measures its performance against the FTSE All-Share Index (total return).

Policy

- Asset allocation

  The Company will invest in all sizes of companies. It is not hindered by the weightings of an index but rather seeks value in a diversified range of companies with normally not more than half by value coming from the largest 100 UK companies and the balance from small and medium sized companies.

- Dividend

  The Company aims to provide shareholders with dividend growth. This will be achieved by growing the capital value of the Company through investing in shares that usually have a reasonable dividend yield and prospects for dividend growth some time in the future.

- Gearing

  The Company will at times borrow money both short and longer term in order to enhance performance. The gearing will not exceed 29.9% other than in exceptional circumstances, nor will equities represent less than 70% of the Company's net asset value.

- General

  It is the stated investment policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

  Lowland is a company listed on the London Stock Exchange. It was created in 1960 and has, since inception, been managed by a representative of Henderson Global Investors. The Board is independent of the management company.

Directors' Report

continued

c) Financial review

	2010	2009	% Change
Net assets as at 30 September	**£203.5m**	£173.6m	+17.2
Total return per share for the year	**139.5p**	8.4p	
Revenue return per share for the year	**22.5p**	22.7p	-0.9
Dividend payable per share for the year	**27.0p**	26.5p	+1.9

- Assets

  Total net assets at 30 September 2010 amounted to £203,484,000 compared with £173,633,000 at 30 September 2009, and the net asset value per ordinary share increased from 657.3p to 770.3p an increase of 17.2%.

  At 30 September 2010 the Company held 108 (2009: 114) investments, as detailed on pages 8 and 9.

- Revenue and Total Return

  The net revenue after taxation for the year was £5,933,000, or 22.5p per share (2009: £5,987,000 or 22.7p per share) a decrease of 0.9% from the previous year. The total return per share for the year was 139.5p (2009: 8.4p).

- Dividend

  For the financial year under review, a first interim dividend of 10.0p (2009: 10.0p) has been paid, which, together with the second interim dividend of 17.0p (2009: 16.5p) to be paid on 22 December 2010, will provide a total dividend of 27.0p per ordinary share for the year, an increase of 1.9% compared to last year.

- Payment of Suppliers

  It is the Company's payment policy to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. 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 2010 (2009: nil).

- Bank facility

  The Company has put in place a facility which allows it to borrow as and when appropriate. At 30 September 2010 the Company had a committed short term facility of £32 million. The facility is subject to regular review and since the year end has been renewed for two years at the increased amount of £33 million. Actual borrowing at 30 September 2010 was £28 million (30 September 2009: £17 million).

  In accordance with the terms of the Trust Deed the Company repaid the £6 million 11.25% Debenture Stock on 1 July 2010.

- Future developments

  While the future performance of the Company is dependent, to a large degree, on the performance of financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined above. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement on pages 3 and 4 and the Portfolio Manager's Report on pages 5 and 6.

- Going Concern

  The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, it has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the guidance issued by the Financial Reporting Council in October 2009.

Directors' Report

continued

d) Performance measurement and key performance indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Investment Manager, the directors take into account the following key performance indicators:

- *Performance measured against the benchmark*
  The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company and its benchmark, which is the FTSE All-Share Total Return.

- *Discount/premium to net asset value ("NAV")*
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant AIC (Association of Investment Companies) sector.

  The Board would consider the use of share buy-backs to enhance shareholder value. Shares would only be purchased at a price below the prevailing NAV per share, thereby increasing the NAV of the remaining shares.

  The Company publishes an NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and since 1 June 2008 includes current financial year revenue items.

- *Performance against the Company's peer group*
  The Company is included in the AIC "UK Growth and Income" sector. In addition to comparison against the stated benchmark, the Board also considers the performance against its AIC peer group at each Board meeting.

- *Total expense ratio ("TER")*
  The TER is a measure of the total expenses incurred by the Company expressed as a percentage of the average shareholders' funds at the beginning and end of the year. The Board regularly reviews the TER and monitors all Company expenses.

	Year ended 30 September 2010	Year ended 30 September 2009
NAV total return	**21.9%**	4.7%
FTSE All-Share total return (the benchmark)	**12.5%**	10.8%
AIC Sector NAV total return	**14.7%**	8.4%
Share price total return	**19.7%**	3.5%
AIC Sector share price total return	**19.5%**	9.3%
Discount to NAV	**9.2%**	7.2%
Total expense ratio (excluding VAT write back)	**0.70%**	0.83%
AIC Sector average total expense ratio	**0.80%**	0.87%

Source: AIC, Henderson Global Investors

e) Related party transactions

Investment management, accounting, company secretarial and administrative services were provided to the Company by wholly-owned subsidiary companies of Henderson Group plc ("Henderson" or the "Investment Manager"). This is the only related party arrangement currently in place. Other than fees payable by the Company in the ordinary course of business, there have been no material transactions with this related party affecting the financial position or performance of the Company during the year under review.

f) Management arrangements

Investment management, accounting, company secretarial and administrative services were provided to the Company by wholly owned subsidiary companies of Henderson under a Management Agreement which is reviewed annually and has a twelve month notice period (except for reasons of a change of control of the Investment Manager).

The management fee is calculated at the rate of 0.5% of the average of the aggregate net chargeable assets on the last day of the relevant quarter and the last day of the corresponding quarter in the preceding year. Net chargeable assets are defined as total assets less current liabilities and includes short-term borrowings for investment purposes but excludes the value of any investment in any funds managed by Henderson.

Directors' Report
continued

Historically there have been no arrangements in place with the Investment Manager for a performance fee.

At its annual review of the management agreement, the Board decided to make certain changes which it has agreed with the Investment Manager, Henderson.

The changes, which will take effect from 1 October 2010, are:

- A reduction in the Notice Period required to terminate the management contract from the current 12 months to 6 months, which is more in line with current practice in the investment trust sector.
- A change in the method of calculating the basic management fee payable from 0.5% of what has effectively been aggregate gross assets to 0.5% of aggregate net assets, excluding the value of any investment in any funds managed by Henderson. Since Lowland normally operates with a degree of gearing, this will lead, all other things being equal, to a reduction in the basic management fee payable to Henderson.

At the same time, the Board has decided to introduce an incentive to Henderson, and in particular to the team allocated by Henderson to manage Lowland, to reward performance above Lowland's benchmark over three year periods.

This performance fee will be 15% of any outperformance on a total return basis of Lowland's benchmark (currently the FTSE All-Share Index) by more than 10% (the "hurdle rate") over the average of the last three years. This fee, plus the basic fee of 0.5% of net assets described above, will be capped in any year at a total of 0.75% of net assets.

In the first year of operation, the year to 30 September 2011, the performance fee will be based on Lowland's performance over that one year. In the second year, it will be based on the average of the two years to 30 September 2012. In the year to 30 September 2013 and thereafter, it will be based on the average of the previous three years.

Any performance fee paid will be charged to the capital return column of the income statement whereas the management fee will continue to be charged to the revenue return.

During the year under review the Investment Manager used certain research services which were paid for, or provided by, various brokers. In return it placed business, which may have included transactions relating to the Company, with these brokers.

g) Custody arrangements
Since 14 September 2009 custody services have been provided by JP Morgan Bank, N.A.

h) Principal risks and uncertainties
With the assistance of the Investment Manager, the Board has drawn up a Risk Map, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- Investment and Strategy
  An inappropriate investment strategy, for example, in terms of asset allocation or level of gearing, may result in underperformance against the Company's benchmark index and the companies in its peer group, and also in the Company's shares trading on a wider discount. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Investment Manager operates in accordance with investment limits and restrictions and policy determined by the Board, which includes limits on the extent to which borrowings may be employed. The Board reviews the limits and restrictions on a regular basis and the Investment Manager confirms adherence to them every month. The Investment Manager provides the Board with management information, including performance data and reports and shareholder analyses. The directors monitor the implementation and results of the investment process with the Portfolio Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

Directors' Report

continued

- Market
  Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in note 14 on pages 39 to 43.

- Accounting, legal and regulatory
  In order to qualify as an investment trust, the Company must comply with section 1158 of the Corporation Tax Act 2010 ("s.1158"). A breach of s.1158 could result in the Company losing investment trust status and, as a consequence, realised gains in the Company's portfolio would be subject to Corporation Tax. Compliance with the requirements of s.1158 are monitored by the Investment Manager and the results are reported at each Board meeting.

  The Company must comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Rules. A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. A breach of the UKLA Rules could result in the suspension of the Company's shares; which in turn would breach s.1158. The Board relies on its Company Secretary and advisers to ensure adherence to the Companies Act and the UKLA Rules.

- Operational
  Disruption to, or the failure of, the Investment Manager's accounting, dealing or payment systems or the Custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. The Investment Manager contracts some of the operational functions (principally those relating to trade processing, investment administration and accounting), to BNP Paribas Securities Services.

  Details of how the Board monitors the services provided by the Investment Manager and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section on page 22.

- Financial
  The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Details of these risks and how they are managed are disclosed in note 14 to the financial statements on pages 39 to 43.

Corporate Governance Statement

a) Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. Paragraph 9.8.6 of the UKLA Listing Rules requires all listed companies to disclose how they have applied the principles and complied with the provisions of the 2008 Combined Code (the "Code"). As an investment trust, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and the directors are all non-executive. Thus, not all the provisions of the 2008 Combined Code are directly applicable to the Company.

The Financial Reporting Council (the "FRC") confirmed in February 2009 that it remained the view of the FRC that by following the Corporate Governance Guide for Investment Companies produced by the Association of Investment Companies (the "AIC Guide"), boards of investment companies should fully meet their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules. The 2009 AIC Code of Corporate Governance (the "AIC Code"), as explained by the AIC Guide, addresses all the principles set out in Section 1 of the 2008 Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The Board of Lowland Investment Company plc believes that reporting against the AIC Code by reference to the AIC Guide will provide the most appropriate information to shareholders and has therefore followed the principles and recommendations set out in the AIC Code. Copies of the AIC Code and the AIC Guide can be found on www.theaic.co.uk.

Directors' Report

continued

In May 2010 the FRC published the new UK Corporate Governance Code, which is effective for accounting periods commencing on or after 29 June 2010 ("the New Code"). The AIC updated its Corporate Governance Code in October 2010 which the FRC have endorsed. These new codes have not yet been adopted by the Company and therefore do not apply to this report.

b) Statement of compliance

The AIC Code comprises 21 principles. The directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the 2008 Combined Code except as noted below.

- Senior independent director
  The Board considers that all the directors have different qualities and areas of expertise on which they may lead where particular issues arise and to whom concerns can be conveyed. A senior independent director has therefore not been appointed.

- The role of chief executive
  Since all directors are non-executive and day-to-day management responsibilities are sub-contracted to the Investment Manager, the Company does not have a Chief Executive.

- Executive directors' remuneration
  As the Board has no executive directors, it is not required to comply with the principles of the Combined Code in respect of executive directors' remuneration and does not have a Remuneration Committee. Directors' fees are detailed in the Directors' Remuneration Report on page 27.

- Internal audit function
  As the Company delegates to third parties its day-to-day operations and has no employees, the Board has determined that there is no requirement for an internal audit function. The directors annually review whether a function equivalent to an internal audit is needed and will continue to monitor its systems of internal controls in order to provide assurance that they operate as intended.

c) Directors

- Board composition and independence
  The Board currently consists of five non-executive directors. The directors review annually their independence. Mr Hancox, Mr Troughton and Mr Barclay have served on the Board for over nine years and, based on the AIC Code, they would not automatically be deemed independent. However, the Nominations Committee concluded that Mr Hancox, Mr Troughton and Mr Barclay remain independent as they have no other links to the Investment Manager and have a wide range of other interests. Therefore, all directors are considered independent. The Chairman's other significant commitments are detailed on page 12 and have not changed during the year. All the current directors served on the Board throughout the year.

- Directors' appointment, retirement and rotation
  The Board may appoint directors to the Board without shareholder approval. All directors are appointed for an initial term of three years, subject to re-appointment and Companies Act provisions, and, in accordance with the articles of association, any director so appointed must stand for election by the shareholders at the next Annual General Meeting ("AGM").

  The Code requires that every director retires by rotation at least every three years and the Company's articles of association provide that one third of directors retire by rotation each year. Directors may then offer themselves for re-election. Mr Hancox, Mr Barclay and Mr Troughton offer themselves for annual re-election by shareholders in accordance with both the Code and the AIC Code.

  In addition under the articles of association, shareholders may remove a director before the end of his term by passing a special resolution. A special

Directors' Report
continued

resolution is passed if more than 75 per cent. of the votes cast, in person or by proxy, are in favour of the resolution.

The directors' biographies, set out on page 12, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors. The Board believes that retaining directors with sufficient experience of both the Company and the markets is of great benefit to shareholders.

The Board believes that each of the directors exercises independent judgement and that length of service does not necessarily diminish the contribution from a director; indeed, a director's experience and extensive knowledge of the Company can be a positive benefit to the Board. Further, the Board is conscious of the need to maintain continuity, particularly given the cyclical nature of the Company's markets. It believes that retaining some directors with experience of past cycles, of both the Company and the markets, is of great benefit to shareholders. This view is supported by the AIC Code.

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. No director is entitled to compensation for loss of office on the takeover of the Company or otherwise.

- Board succession and policy for recruitment
  The Nominations Committee considers succession planning bearing in mind the balance of skills, knowledge and experience existing on the Board and will recommend when the further recruitment of non-executive directors is required. The Committee aims to maintain a balance of relevant skills, experience and length of service of the Directors serving on the Board. The Chairman will be retiring at the AGM in 2012 and therefore a new non-executive director will be appointed to the Board in the forthcoming year.

- Directors' remuneration
  A report on directors' remuneration is on page 27.

- Directors' Interest in shares
  The interests of the directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the table below.

	Ordinary shares of 25p each	
	30 September 2010	1 October 2009
Beneficial:		
J P D Hancox	**20,000**	20,000
R G M L Barclay	**10,932**	10,853
K J Carter	**2,500**	–
T E Long*	**n/a**	8,427
M B Moule**	**n/a**	2,000
K S Sternberg	**3,500**	2,500
P J C Troughton	**8,420**	8,140

* Retired as a director on 31 December 2009.
** Retired as a director on 22 January 2010.

Since the end of the financial year and to the date of this report Mr Troughton purchased a further 1,141 shares in the Company.

Mr J H Henderson, the Portfolio Manager, has a beneficial interest in 492,419 (2009: 492,419) ordinary shares of the Company.

- Directors' conflicts of interest
  Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. With effect from 1 October 2008, the Companies Act 2006 (the "Act") has allowed directors of public companies to authorise such conflicts and potential conflicts, where appropriate, but only if the articles of association contain a provision to this effect. The Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. There are two

Directors' Report

continued

circumstances in which a conflict of interest can be permitted – either the situation cannot reasonably be regarded as likely to give rise to a conflict of interest or the matter has been authorised in advance by the directors. The Company's articles of association, which were adopted by shareholders on 22 January 2010, give the directors the relevant authority required to deal with conflicts of interest.

Each of the directors has provided a statement of all conflicts of interest and potential conflicts of interest, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. Going forward, the directors have also all undertaken to notify the Chairman as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board and added to the Register, which will be reviewed annually by the Board.

It has also been agreed that directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment and new directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Act in advance of joining the Board. The Chairman will then determine whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. Only directors who have no interest in the matter being considered will be able to participate in the Board approval process. In deciding whether to approve a conflict of interest, directors will also act in a way they consider, in good faith, will be most likely to promote the Company's success in taking such a decision. The Board can impose limits or conditions when giving authorisation if the directors consider this to be appropriate.

The Board confirms that its powers of authorisation of conflicts has operated effectively since they were introduced on 1 October 2008. The Board also confirms that its procedures for the approval of conflicts of interest have been followed by all the directors.

- Directors' professional development
  When a new director is appointed he or she is offered a training seminar which is held by the Investment 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. Directors also regularly participate in relevant training and industry seminars.

- Directors' Indemnity
  Directors' and officers' liability insurance cover is in place in respect of the directors. The Company's articles of association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgement is given in their favour by the Court.

d) The Board

- Board attendance
  Six scheduled Board meetings were held during the year to deal with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy, gearing policy, the review of investment performance and the level of the discount or premium to net asset value, financial reporting and controls, internal controls and risk, Board and Committee membership, corporate governance matters and the evaluation of service providers. Additional meetings of the Board may be arranged as required. The number of formal meetings of the Board and its Committees held during the financial year and the attendance of individual directors are shown on the next page.
  All directors attend the Annual General Meeting.

Directors' Report
continued

- *Board attendance*

No. of meetings	Board 6	Audit Committee 2	Nomination Committee 1	Management Engagement Committee 1
J P D Hancox (i)	6	n/a	1	1
R G M L Barclay	6	2	1	1
K J Carter	6	2	1	1
T E Long (ii)	1	1	n/a	n/a
M B Moule (iii)	2	n/a	n/a	n/a
K S Sternberg	6	2	1	1
P J C Troughton	6	2	1	1

Notes:
(i) Mr Hancox is not a member of the Audit Committee, although he is normally invited to attend.
(ii) Dr Long retired as a director on 31 December 2009.
(iii) Mr Moule was not an independent Director and was therefore not a member of the Board Committees. However, he was normally invited to attend. Mr Moule retired as a director on 22 January 2010.

- Responsibilities of the Board and its Committees
  The Board has three Committees, the Audit Committee, the Nominations Committee and the Management Engagement Committee, and Terms of Reference for these Committees are available on the website, www.lowlandinvestment.com.

  Audit Committee
  The Audit Committee comprises Mr Barclay, Dr Carter, Mr Sternberg and Mr Troughton. The Chairman of the Committee is Mr Barclay. Collectively the members of the Audit Committee are considered to have the necessary recent and relevant financial experience.

  The Audit Committee meets at least twice a year and is responsible for the review of the Annual Report and Financial Statements, the nature and scope of the external audit and the findings therefrom, the terms of appointment of the auditors together with their remuneration, performance, independence and objectivity, as well as any non-audit services provided by the auditors, and the Half Year Report. It meets with representatives of the Investment Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

The Audit Committee considers whether the auditors are best placed to carry out any non-audit services on a case by case basis. The Investment Manager and BNP Paribas Securities Services have arrangements in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The Audit Committee has reviewed the audit appointment in the past and does not consider it necessary to repeat this at present. The auditors are required to rotate the audit partner every five years and this is the first year that the current partner has been in place.

Following a recommendation from the Audit Committee, the Board concluded that the auditors, PricewaterhouseCoopers LLP, remained independent of both the Company and the Investment Manager.

Nominations Committee
During the year the Nominations Committee comprised Mr Hancox, Mr Barclay, Dr Carter, Mr Sternberg and Mr Troughton. The Chairman of the Committee is Mr Hancox. However, he would not chair the Committee when the Chairman's successor was being considered. The Nominations Committee meets at least annually and considers Board succession planning, the review of the performance of the Board as a whole and the Board Committees, and the appointment of new directors. The Nominations Committee met once during the year and reviewed the directors retiring at the forthcoming AGM and recommended their re-election be put forward to shareholders.

When considering succession planning, the Committee bears in mind the balance of skills, knowledge and experience existing on the Board and will recommend when the recruitment of an additional non-executive director is required. As and when a decision is made to recruit additional

Directors' Report
continued

directors to the Board, an external agency may be used and each director is also invited to submit nominations and these are considered in accordance with the Board's agreed procedures.

The Committee met in September 2010 to carry out its annual review of the Board, its composition and size and its Committees.

The Committee recommended to the Board the appointment of a new non-executive director to join the Board in 2011. The results of the performance evaluation are contained in (e) below.

Management Engagement Committee
The Management Engagement Committee comprises of all the directors. The Chairman of the Committee is Mr Hancox. The Committee meets at least annually to review the Investment Management Agreement with the Company's Investment Manager and to review the services provided by the Investment Manager. Details of Henderson's responsibilities as Investment Manager can be found on pages 15 and 16.

e) Performance Evaluation

- *The Company*
  The performance of the Company is considered in detail at each Board meeting.

- *The Board and the Board Committees*
  The work of the Board as a whole and of the Board Committees was reviewed by the Nominations Committee in September 2010 and no areas of concern were identified.

- *Individual directors*
  The Chairman reviews each individual director's contribution on an annual basis, and the work of the Board as a whole and of the Board Committees is also reviewed annually through a formal process by the Nominations Committee. The Board meets annually without the Chairman present in order to review the performance of the Chairman.

  At the Nominations Committee meeting in 2010 it was agreed that the Chairman continued to promote effective leadership and that each of the directors contributed valuable experience and skills to the Board.

f) Internal Controls

The Board has established a process for identifying, evaluating and managing any major risks faced by the Company. The 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 and revised in October 2005 ("the Turnbull Guidance"). The process has been in place since 2 March 2000 and up to the date of approval of this Annual Report.

The Board, assisted by the Investment Manager, has undertaken an annual review of the effectiveness of the Company's system of internal control. The business risks have been analysed and recorded in a risk map, which is reviewed regularly. The Board receives each quarter from the Investment 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 Investment Manager, and which reports the details of any known internal control failures. The Board receives each year from the Investment Manager a report on its internal controls which includes a report from the Investment Manager's reporting accountants on the control policies and procedures in operation. The Board confirms that in the event of any significant failings or weakness identified from the annual review of the effectiveness of the Company's system of internal control, necessary actions would be taken to remedy them.

The Board is responsible overall for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objective and can only provide reasonable and not absolute assurance against material

Directors' Report
continued

misstatement or loss.

g) Accountability and relationship with the Investment Manager

The Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements is set out on page 26, the Independent Auditors' Report on page 46 and the Statement of Going Concern on page 14.

The Board has delegated contractually to external third parties, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the 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 regular reports from the Investment 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 trust companies managed by the Investment Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The Investment Manager takes decisions as to the purchase and sale of individual investments. The Investment Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager attend each Board meeting enabling the directors to probe further on matters of concern. A formal schedule of matters specifically reserved for decision by the full Board has 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 within certain parameters. 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 complied with. The Board and Investment Manager operate in a supportive, co-operative and open environment.

h) Continued Appointment of the Investment Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Investment Manager are contained on pages 15 and 16.

The Board reviews the performance of the Investment Manager at each Board meeting and the Management Engagement Committee reviews annually the terms of the contract with the Investment Manager. In the opinion of the Directors, the continued appointment of the current Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

The Investment Manager has extensive investment management resources, wide experience in managing and administering investment trust companies and is deemed likely to achieve the objectives of the Company.

i) Share capital and Shareholders

- Share capital

  The Company's share capital comprises ordinary shares of 25p nominal value each. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's ordinary shares and there are no shares which carry specific rights with regards to control of the Company.

  At 30 September 2010, there were 26,417,427 shares in issue. Since 30 September 2010 and up to the date of this document, there have been no changes to the share capital or voting rights of the

Directors' Report
continued

Company.

- Substantial Share Interests
  Declarations of interests in the voting rights of the Company, at 22 November 2010, are set out below.

Shareholder	% of voting rights
Legal & General	3.98%

In addition, the Board is aware that, at 30 September 2010, 9.6% of the issued share capital was held on behalf of participants in the Halifax Share Dealing products run by Halifax Share Dealing Limited ("HSDL"), which is now part of Lloyds Banking Group. In accordance with the arrangements made between HSDL and Henderson, the participants in the Halifax Share Dealing products are given the opportunity to instruct the nominee company of HSDL to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. HSDL has undertaken to instruct its nominee company to exercise the voting rights of any shares held through the Halifax Share Dealing products that have not been exercised by the individual participants in them. It will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

- Relations with Shareholders
  Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the Half Year Report and Annual Report and Financial Statements, which aim to provide shareholders with a clear understanding of the Company's activities and their results. In addition, Interim Management Statements are issued twice per annum. This information is supplemented by the daily calculation and publication at the London Stock Exchange of the net asset value of the Company's ordinary shares and by a monthly fact sheet. Information can also be found on www.lowlandinvestment.com. In addition to publishing various reports, the Portfolio Manager regularly meets with shareholders and, in particular, private client stockbrokers. During the meetings with shareholders, the Portfolio Manager has an opportunity to discuss the Company's investment approach.

The Board encourages shareholders to attend and participate in the Annual General Meeting, which is chaired by the Chairman of the Board and all directors normally attend. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other directors at the meeting. The Portfolio Manager, as the representative of the Investment Manager, makes a presentation to and invites questions from shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and on the website afterwards.

It is the intention of the Board that the Annual Report and Financial Statements and the Notice of Annual General Meeting be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting are invited to do so by writing to the Company Secretary at the Registered Office address given on the inside back cover.

General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Investment Manager and shareholders are reported to the Board.

j) Corporate Responsibility

- *Responsible investment*
  Responsible Investment is the term Henderson uses to cover its work on corporate governance and corporate responsibility (or social, environmental and ethical issues) in the companies in which it

Directors' Report
continued

invests on its clients' behalf, across all funds. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance issues into mainstream investment decision-making and ownership practices.

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

- *Voting policy*
  Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship Code.
  The Company has delegated responsibility for voting to the Investment Manager. The Board will receive a report, at least annually, on the voting undertaken by the Investment Manager on behalf of the Company.

  The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution, the Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefor are fed back to the investee company prior to voting.

  The Henderson Responsible Investment Policy and further details of Henderson's responsible investment activities can be found on the Henderson website, www.henderson.com

- *Employee and Environmental matters*
  The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible.

Annual General Meeting ("AGM")
The AGM will be held on Wednesday 19 January 2011 at 12 noon. Separate resolutions will be proposed for each substantive issue. The formal notice of the AGM as well as full details of the resolutions to be put at the AGM are contained in the separate circular being sent to shareholders with this Annual Report.

Directors' Statement as to Disclosure of Information to Auditors
The directors who were members of the Board at the time of approving this Report are listed on page 12 Each of those directors confirms that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of their Report of which the Company's auditors are unaware; and
- he has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Wendy King FCIS
For and on behalf of Henderson Secretarial Services Limited
22 November 2010

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Directors' Responsibilities under DTR 4.1.12

Each of the directors, who are listed on page 12 confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' Report in this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

R G M L Barclay
Director
22 November 2010

The financial statements are published on the www.lowlandinvestment.com website, which is a website maintained by the Company's Manager, Henderson Global Investors Limited ("Henderson"). The maintenance and integrity of the website maintained by Henderson or any of its subsidiaries 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 this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Sections 420-422 of the Companies Act 2006. The report also meets the relevant provisions of the Listing Rules issued by the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the AGM. The Company's auditors are required to report on certain information contained within this report.

Remuneration Policy

All Directors are non-executive and it should be noted that a Remuneration Committee has therefore not been established. The whole Board considers matters relating to directors' remuneration and was not provided with advice or services by any external person in respect of its consideration of the Directors' remuneration.

The Company's policy is that fees payable to the directors should reflect the time spent by the Board on the Company's affairs, and the responsibilities borne by the directors, and be sufficient to enable candidates of high calibre to be recruited and retained. The Chairman of the Board is paid a higher fee in recognition of his additional responsibilities, as is the Chairman of the Audit Committee. The policy is to review fee rates annually, although such review will not necessarily result in any change to the rates, and account is taken of fees paid to Directors of other investment trust companies of similar type and size. Fees are paid quarterly in arrears to the director personally.

None of the directors has a service contract with the Company. There are no set notice periods and a director may resign by notice in writing to the Board at any time. There are no long term incentive schemes, share option schemes or pension arrangements provided by the Company and no performance fees are paid to directors.

No other remuneration or compensation was paid or payable by the Company during the year or prior year to any of the current or former directors.

Directors' Fees and Expenses

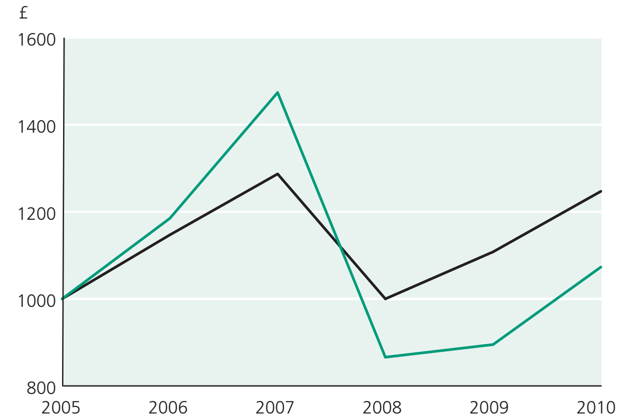
The Company's articles of association limit the fees payable to the directors in aggregate to a total of £150,000 per annum.

The fees payable to directors during the year to 30 September are shown in the table below. Since 1 October 2010 the fees have increased as follows: Chairman £28,500, Audit Committee Chairman £21,000 and director £18,000; the previous increase was from 1 January 2008.

		Directors' Fees	
	Notes	**2010 £**	2009 £
J P D Hancox		**27,000**	27,000
R G M L Barclay		**19,000**	19,000
K J Carter	1	**17,000**	–
T E Long	2	**4,250**	17,000
M B Moule	3	**5,289**	17,000
K S Sternberg	4	**17,000**	12,750
P J C Troughton		**17,000**	17,000
TOTAL		**106,539**	109,750

Notes
1 Dr K J Carter was appointed a director with effect from 1 October 2009.
2 Dr T E Long retired as a director on 31 December 2009.
3 Mr M B Moule retired as a director on 22 January 2010.
4 Mr K S Sternberg was appointed a director with effect from 1 January 2009.

Performance graph



Source: Datastream

Lowland share price total return, assuming the investment of £1,000 on 1 October 2005 and the reinvestment of all dividends (excluding dealing expenses).

FTSE All-Share total return, assuming the notional investment of £1,000 on 1 October 2005 and the reinvestment of all income (excluding dealing expenses).

By order of the Board

Wendy King FCIS
For and on behalf of Henderson Secretarial Services Limited
Secretary
22 November 2010

Income Statement

for the year ended 30 September 2010

Notes		**Year ended 30 September 2010** Revenue Return £'000	Capital Return £'000	Total £'000	Year ended 30 September 2009 Revenue Return £'000	Capital Return £'000	Total £'000
2	Gains/(losses) on investments held at fair value through profit or loss	**–**	**30,917**	**30,917**	–	(3,764)	(3,764)
3	Income from investments	**8,303**	**–**	**8,303**	7,402	–	7,402
4	Other interest receivable and similar income	**107**	**–**	**107**	362	–	362
4	Interest on VAT refunds	**–**	**–**	**–**	371	–	371
	Gross revenue and capital gains/(losses)	**8,410**	**30,917**	**39,327**	8,135	(3,764)	4,371
5	Management fee	**(924)**	**–**	**(924)**	(1,030)	–	(1,030)
5	Write back of prior-years' VAT	**–**	**–**	**–**	407	–	407
6	Other administrative expenses	**(399)**	**–**	**(399)**	(423)	–	(423)
	Net return/(loss) on ordinary activities before finance charges and taxation	**7,087**	**30,917**	**38,004**	7,089	(3,764)	3,325
7	Finance charges	**(1,064)**	**–**	**(1,064)**	(1,083)	–	(1,083)
	Net return/(loss) on ordinary activities before taxation	**6,023**	**30,917**	**36,940**	6,006	(3,764)	2,242
8	Taxation on net return/(loss) on ordinary activities	**(90)**	**–**	**(90)**	(19)	–	(19)
	Net return/(loss) on ordinary activities after taxation	**5,933**	**30,917**	**36,850**	5,987	(3,764)	2,223
9	**Return/(loss) per ordinary share – basic and diluted**	**22.5p**	**117.0p**	**139.5p**	22.7p	(14.3p)	8.4p

The total columns of this statement represent the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. The Company had no recognised gains or losses other than those disclosed in the Income Statement.

The notes on pages 32 to 45 form part of these financial statements

Reconciliation of Movements in Shareholders' Funds

for the years ended 30 September 2010 and 30 September 2009

Note	**Year ended 30 September 2010**	**Called up share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
	At 30 September 2009	**6,604**	**53,561**	**1,007**	**104,069**	**8,392**	**173,633**
	Net return on ordinary activities after taxation	**–**	**–**	**–**	**30,917**	**5,933**	**36,850**
10	**Second interim (16.5p) for the year ended 30 September 2009 paid 22 December 2009**	**–**	**–**	**–**	**–**	**(4,359)**	**(4,359)**
10	**First Interim dividend (10.0p) for the year ended 30 September 2010 paid 19 June 2010**	**–**	**–**	**–**	**–**	**(2,642)**	**(2,642)**
10	**Refund of unclaimed dividends over 12 years old**	**–**	**–**	**–**	**–**	**2**	**2**
	At 30 September 2010	**6,604**	**53,561**	**1,007**	**134,986**	**7,326**	**203,484**

Note	Year ended 30 September 2009	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 30 September 2008	6,604	53,561	1,007	107,833	9,406	178,411
	Net (loss)/return on ordinary activities after taxation	–	–	–	(3,764)	5,987	2,223
10	Final dividend (16.5p) for the year ended 30 September 2008 paid 22 December 2008	–	–	–	–	(4,359)	(4,359)
10	First interim dividend (10.0p) for the year ended 30 September 2009 paid 19 June 2009	–	–	–	–	(2,642)	(2,642)
	At 30 September 2009	6,604	53,561	1,007	104,069	8,392	173,633

The notes on pages 32 to 45 form part of these financial statements

Balance Sheet
at 30 September 2010

Notes		2010 £'000	2009 £'000
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	**205,140**	174,923
	Quoted at market value on AIM	**17,384**	14,028
	Listed at market value overseas	**5,243**	3,687
	Unquoted	**1,307**	1,302
		229,074	193,940
	Current assets		
12	Debtors	**1,562**	1,357
23	Cash at bank	**2,282**	2,334
		3,844	3,691
13	**Creditors:** amounts falling due within one year	**(29,434)**	(23,998)
	Net current liabilities	**(25,590)**	(20,307)
	Total net assets	**203,484**	173,633
	Capital and reserves		
15	Called up share capital	**6,604**	6,604
16	Share premium account	**53,561**	53,561
17	Capital redemption reserve	**1,007**	1,007
17	Other capital reserves	**134,986**	104,069
18	Revenue reserve	**7,326**	8,392
	Shareholders' funds	**203,484**	173,633
19	**Net asset value per ordinary share**	**770.3p**	657.3p

These financial statements were approved and authorised for issue by the Board of directors on 22 November 2010 and signed on their behalf by:

R G M L Barclay
Director

The notes on pages 32 to 45 form part of these financial statements

Cash Flow Statement

for the year ended 30 September 2010

Notes		2010 £'000	2010 £'000	2009 £'000	2009 £'000
22	**Net cash inflow from operating activities**		**6,774**		8,074
	Servicing of finance				
	Interest paid	**(1,122)**		(1,021)	
	Net cash outflow from servicing of finance		**(1,122)**		(1,021)
	Taxation				
	Tax recovered	**95**		–	
	Net tax recovered		**95**		–
	Financial investment				
	Purchases of investments	**(28,542)**		(45,959)	
	Sales of investments	**24,780**		57,678	
	Net cash (outflow)/inflow from financial investment		**(3,762)**		11,719
	Equity dividends paid		**(6,999)**		(7,001)
	Net cash (outflow)/inflow before financing activities		**(5,014)**		11,771
	Financing				
	Repayment of Debenture Stock	**(6,000)**		–	
	Net loans drawndown/(repaid)	**11,000**		(10,586)	
			5,000		(10,586)
	(Decrease)/increase in cash		**(14)**		1,185
23	**Reconciliation of net cash flow to movement in net debt**				
	(Decrease)/increase in cash as above		**(14)**		1,185
	Repayment of Debenture Stock		**6,000**		–
	Net cash (inflow)/outflow from movement in loans		**(11,000)**		10,586
	Exchange movements		**(38)**		33
	Movement in net debt		**(5,052)**		11,804
	Net debt at 1 October		**(20,666)**		(32,470)
	Net debt at 30 September		**(25,718)**		(20,666)

The notes on pages 32 to 45 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of investments at fair value. The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Companies ("the AIC") in January 2009. All of the Company's operations are of a continuing nature. The Company's accounting policies are consistent with the prior year.

(b) Valuation of investments held at fair value through profit or loss

Listed investments, including AIM stocks, have been designated by the Board as held at fair value through profit or loss and accordingly are valued at fair value, deemed to be bid price or the last trade price depending on the convention of the exchange on which the investment is quoted.

Unquoted investments have also been designated as held at fair value through profit or loss and are valued by the directors using primary valuation techniques such as earnings multiples, recent transactions and net assets. Where fair value cannot reliably be measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "gains or losses on investments held at fair value through profit or loss". Transaction costs incurred on the purchase and disposal of investments are included within the cost or deducted from the proceeds of the investment. All purchases and sales are accounted for on a trade date basis.

(c) Foreign currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and equity investments held at fair value through profit or loss which are denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or to the revenue return of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

(d) Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis except where, in the opinion of directors, the dividend is capital in nature in which case it is taken to the capital return. Income from fixed interest debt securities and preference shares is recognised using the effective interest rate method in accordance with the SORP. The ordinary element of scrip dividends received in lieu of cash dividends is recognised as revenue. Any enhancement above the cash dividend is treated as capital.

Bank interest and income from stock lending are accounted for on an accruals basis.

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, a derivative financial instrument is recognised initially at fair value. The derivative is re-measured subsequently at fair value, with the related gains and losses being reflected in the Income Statement. Net losses arising from these derivatives, where actual or expected loss from taking up the securities underwritten exceeds the commission income, are allocated to the capital return. Net gains are allocated to the revenue return.

Notes to the Financial Statements
continued

1 Accounting policies (continued)

(e) Management and administrative expenses and finance charges

All expenses and finance charges are accounted for on an accruals basis. All administrative expenses, including the management fee and interest payable, are charged to the revenue return of the Income Statement.

(f) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the effective tax rate of corporation tax for the accounting period.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. Any liability to deferred tax is provided at the average rate of tax expected to apply based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

(g) Borrowings

Interest bearing bank loans, overdrafts and debentures are recorded initially at fair value, being the proceeds received, less direct issue costs. They are subsequently remeasured at amortised cost. Finance charges, including interest payable, premiums on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(h) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid, or in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Reconciliation of Movements in Shareholders' Funds.

(i) Issue and repurchase of ordinary shares and associated costs

The proceeds from the issue of new ordinary shares (including those relating to the sale of shares out of treasury) and the aggregate cost of repurchasing ordinary shares (including those to be held in treasury) are taken directly to the share premium account and dealt with in the Reconciliation of Movements in Shareholders' Funds. Issue costs incurred in respect of new ordinary shares are offset against the proceeds received and dealt with in the share premium account. Issue costs incurred in respect of shares sold out of treasury are offset against proceeds received and dealt with in the share premium account. Share issue and repurchase transactions are accounted for on a trade date basis.

(j) Capital reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

– gains and losses on the disposals of investments;
– realised foreign exchange differences of a capital nature; and
– cost of repurchasing ordinary share capital.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

– increases and decreases in the valuation of investments held at the year end; and

– unrealised foreign exchange differences of a capital nature.

2 Gains/(losses) from investments held at fair value through profit or loss

	2010 £'000	2009 £'000
Losses on the sale of investments based on historical cost	**(5,864)**	(33,351)
Add: Revaluation losses recognised in previous years	**8,117**	20,382
Gains/(losses) on investments sold in the year based on carrying value at previous balance sheet date	**2,253**	(12,969)
Revaluation gains on investments held at 30 September	**28,702**	9,172
Exchange (losses)/gains	**(38)**	33
	30,917	(3,764)

3 Income from investments

	2010 £'000	2009 £'000
UK dividends		
Quoted investments	**7,316**	6,700
Unquoted	**43**	41
	7,359	6,741
Non UK dividends		
Overseas dividend income	**820**	317
Stock dividends	**–**	24
Property income dividends	**119**	210
Interest income	**5**	110
Non UK dividends	**944**	661
	8,303	7,402

4 Other interest receivable and similar income

	2010 £'000	2009 £'000
Deposit interest	**2**	11
Stock lending fees	**7**	55
Income from underwriting	**98**	296
	107	362
Interest on VAT refunds (see note 21)	**–**	371
	107	733

At 30 September 2010 the total value of securities on loan by the Company for stock lending purposes was £3,490,000 (2009: £nil). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2010 was £10,450,000 (2009: £5,087,000). The Company's agent holds collateral comprising FTSE 100 stocks with a market value amounting to 105% of the market value of any securities on loan.

Notes to the Financial Statements

continued

5	**Management fee** (all charged to revenue)	**2010 £'000**	2009 £'000
	Management fee	**924**	1,030
		924	1,030
	Write-back of VAT (see note 21)	**–**	(407)
		924	623

A description of the basis for calculating the management fee is given in the Directors' Report on pages 15 and 16.

6	**Other administrative expenses**	**2010 £'000**	2009 £'000
	Directors' fees (see Directors' Remuneration Report on page 27)	**107**	110
	Auditors' remuneration:		
	For audit services	**20**	20
	For non audit services (in respect of other assurance services)	**–**	1
	AIC subscriptions	**14**	22
	Directors' and Officers' liability insurance	**13**	12
	Listing fees (Stock Exchange, newspapers and internet)	**23**	19
	Loan facility fees	**110**	122
	Printing and postage	**26**	23
	Registrar's fees	**19**	18
	Stock lending fees (see note 4)	**2**	14
	Legal fees	**5**	12
	Other expenses (i)	**43**	37
	Irrecoverable VAT	**17**	13
		399	423

(i) 'Other expenses' includes general expenses and marketing services for which fees of £27,000 were payable to Henderson in 2010 (2009: £13,000).

7	**Finance charges**	**2010 £'000**	2009 £'000
	On debenture stock repayable wholly or partly within five years	**506**	675
	On bank loans and overdrafts repayable within one year	**558**	408
		1,064	1,083

Notes to the Financial Statements
continued

8 Taxation	**Year ended 30 September 2010 Revenue return £'000**	**Capital return £'000**	**Total £'000**	Year ended 30 September 2009 Revenue return £'000	Capital return £'000	Total £'000
(a) Analysis of tax charge for the year						
Corporation tax	**–**	**–**	**–**	107	–	107
Less: double taxation relief	**–**	**–**	**–**	(107)	–	(107)
Overseas tax suffered	**90**	**–**	**90**	19	–	19
Total taxation for the year	**90**	**–**	**90**	19	–	19

(b) Factors affecting the tax charge for the year	**Year ended 30 September 2010 Revenue return £'000**	**Capital return £'000**	**Total £'000**	Year ended 30 September 2009 Revenue return £'000	Capital return £'000	Total £'000
Return/(loss) on ordinary activities before taxation	**6,023**	**30,917**	**36,940**	6,006	(3,764)	2,242
Corporation tax at 28% (2009: 28%)	**1,686**	**8,657**	**10,343**	1,682	(1,054)	628
Effects of:						
Non-taxable UK dividends	**(2,061)**	**–**	**(2,061)**	(1,888)	–	(1,888)
Other non taxable income	**(61)**	**–**	**(61)**	(32)	–	(32)
Overseas tax suffered	**90**	**–**	**90**	19	–	19
Excess expenses/non trading deficits for the year	**430**	**–**	**430**	307	–	307
Double taxation relief	**–**	**–**	**–**	(107)	–	(107)
Income taxable in different periods	**6**	**–**	**6**	38	–	38
Non-taxable/deductible capital (gains)/losses	**–**	**(8,657)**	**(8,657)**	–	1,054	1,054
	90	**–**	**90**	19	–	19

Investment trusts are exempt from Corporation Tax on capital gains provided that the Company obtains agreement from HM Revenue and Customs in respect of each accounting year that the tests under Section 1158 of the Corporation Tax Act 2010 have been met.

Due to the Company's status as an investment trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

The Company has not recognised a deferred tax asset totalling £7,424,000 (2009: £7,270,000) arising as a result of having unutilised management expenses and unutilised non trade loan relationship deficits. These expenses will only be utilised if the Company has profits chargeable to Corporation Tax in the future.

Notes to the Financial Statements

continued

9 Return per ordinary share – basic and diluted

The return per ordinary share is based on the net return attributable to the ordinary shares of £36,850,000 (2009: return of £2,223,000) and on 26,417,427 ordinary shares (2009: 26,417,427) being the weighted average number of ordinary shares in issue during the year. The return per ordinary share can be further analysed between revenue and capital, as below.

	2010 £'000	2009 £'000
Net revenue return	**5,933**	5,987
Net capital return/(loss)	**30,917**	(3,764)
Net total return	**36,850**	2,223
Weighted average number of ordinary shares in issue during the year	**26,417,427**	26,417,427
Revenue return per ordinary share	**22.5p**	22.7p
Capital return/(loss) per ordinary share	**117.0p**	(14.3p)
Total return per ordinary share	**139.5p**	8.4p

The Company does not have any dilutive securities, therefore the basic and diluted returns per share are the same.

10 Dividends paid and payable on the ordinary shares

Dividends on ordinary shares	**Record date**	**Payment date**	**2010 £'000**	2009 £'000
Final dividend (16.5p) for the year ended 30 September 2008	21 November 2008	22 December 2008	**–**	4,359
First interim dividend (10.0p) for the year ended 30 September 2009	29 May 2009	19 June 2009	**–**	2,642
Second interim dividend (16.5p) for the year ended 30 September 2009	4 December 2009	22 December 2009	**4,359**	–
First interim dividend (10.0p) for the year ended 30 September 2010	28 May 2010	18 June 2010	**2,642**	–
Refund of unclaimed dividends over 12 years old			**(2)**	–
			6,999	7,001

The second interim dividend for the year ended 30 September 2010 has not been included as a liability in these financial statements. The total dividends payable in respect of the financial year, which form the basis of the retention test under Section 1158 of the Corporation Tax Act 2010, are set out below.

	2010 £'000
Revenue available for distribution by way of dividend for the year	**5,933**
First interim dividend (10.0p) for the year ended 30 September 2010	**(2,642)**
Second interim dividend (17.0p) for the year ended 30 September 2010 (based on 26,417,427 ordinary shares in issue at 22 November 2010)	**(4,491)**
Undistributed revenue for Section 1158 purposes *	**(1,200)**

*All current year revenue after tax has been distributed. The shortfall of £1,200,000 has been funded from the revenue reserve.

Notes to the Financial Statements
continued

11	**Investments held at fair value through profit or loss**	**Total £'000**
	Valuation at 1 October 2009	**193,940**
	Investment holding losses at 1 October 2009	**27,883**
	Cost at 1 October 2009	**221,823**
	Additions at cost	**29,063**
	Disposals at cost	**(30,748)**
	Cost at 30 September 2010	**220,138**
	Investment holding gains at 30 September 2010	**8,936**
	Valuation at 30 September 2010	**229,074**

Purchase transaction costs for the year ended 30 September 2010 were £149,000 (2009: £208,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2010 were £36,000 (2009: £71,000).

The Company has interests of 3% or more of any class of capital in 15 (2009: 18) investee companies. At 30 September 2010, of the 15 investee companies, the following represented more than 1% of investments.

Company	**Valuation £'000**	**% of voting rights**
Carclo	**8,512**	**8.2**
H & T	**3,396**	**3.0**
Renold	**2,433**	**4.5**

12	**Debtors**	**2010 £'000**	2009 £'000
	Sales for future settlement	**139**	35
	Prepayments and accrued income	**1,360**	1,188
	Taxation recoverable	**63**	134
		1,562	1,357

13	**Creditors:** amounts falling due within one year	**2010 £'000**	2009 £'000
	11.25% debenture stock 2010, secured by a floating charge over the Company's assets (redeemed at par on 1 July 2010)	**–**	6,000
	Unsecured sterling bank loans	**28,000**	17,000
	Purchases for future settlement	**919**	398
	Debenture interest payable	**–**	168
	Other creditors	**515**	432
		29,434	23,998

The Company entered into a two year £33m loan facility with ING Bank N.V. on 28 October 2010 and this replaced the previous one year £32m loan facility with ING Bank NV.

Notes to the Financial Statements
continued

14 Financial risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective and policy as stated on page 13. In pursuing its investment objective and policy, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks: market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk, and the directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board and the Investment Manager coordinate the Company's risk management.

14.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 14.1.1), currency risk (see note 14.1.2) and interest rate risk (see note 14.1.3). The Board reviews and agrees policies for managing these risks. The Investment Manager assesses the exposure to market price risk when making each investment decision, and monitors the overall level of market price risk on the whole of the investment portfolio on an ongoing basis.

14.1.1 Market price risk

Market price risk (ie, changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of quoted and unquoted investments.

The Company's exposure to market price risk at 30 September 2010 is represented by its investments held on the Balance Sheet under the heading "Investments held at fair value through profit or loss" on page 30.

Management of the risk
The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Investment Manager's compliance with the Company's objectives, and is directly responsible for investment strategy and asset allocation.

Concentration of exposure to market price risks
An analysis of the Company's investment portfolio is shown on pages 8 and 9. This shows that the majority of the investments' value is in UK listed companies. Accordingly, there is a concentration of exposure to market price risk, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market price risk sensitivity
The following table illustrates the sensitivity of the total return after taxation for the year and the net assets to an increase or decrease of 40% in the fair values of the Company's investments. This level of change is considered to be reasonably possible based on observation of recent market conditions.

Notes to the Financial Statements
continued

14 Financial risk management policies and procedures (continued)

Sensitivity analysis – Market prices
If prices change by 40% (2009: 40%)

	2010 If prices go up £'000	2010 If prices go down £'000	2009 If prices go up £'000	2009 If prices go down £'000
Investments	**229,074**	**229,074**	193,940	193,940
Impact on income statement:				
Revenue return (0.5% management fee rate)	**(458)**	**458**	(388)	388
Capital return	**91,630**	**(91,630)**	77,576	(77,576)
Impact on net assets and total return (excluding gearing)	**91,172**	**(91,172)**	77,188	(77,188)

14.1.2 Currency risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and presentational currency). As a result, movements in exchange rates may affect the sterling value of those items. As the Company's investments are predominantly in sterling denominated securities its exposure to currency risk is not considered material.

Management of the risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. The Investment Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and total return of a movement in the exchange rates to which the Company's assets, liabilities, income and expenses are exposed.

Investment income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

14.1.3 Interest rate risk

Interest rate movements may affect:

– the fair value of investments in fixed interest securities
– the level of income receivable from interest-bearing securities and cash at bank and on deposit
– the interest payable on the Company's variable rate borrowings.

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the loan facility. The Company, generally, does not hold significant cash balances, with short term borrowings being used when required. The Company finances part of its activities through borrowings at levels approved and monitored by the Board. Derivative contracts have not been used during the year to hedge against the exposure to interest rate risk.

Interest rate exposure

The Company's exposure to floating interest rates can be found on the Balance Sheet under the heading "Cash at bank" and in note 13 under the heading "Unsecured sterling bank loans".

Notes to the Financial Statements
continued

14 Financial risk management policies and procedures (continued)

Interest receivable and finance costs are at the following rates:
– Interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR (2009: same)
– Interest paid on borrowings under the loan facility is at a margin over LIBOR for the type of loan. The weighted average interest rate of these is 2.4% as at 30 September 2010 (2009: 2.5%).

The Company had no fixed interest rate liability exposure at 30 September 2010 (2009: £6,000,000). The 11.25% debenture stock 2010, which was secured by a floating charge over the Company's assets was repaid on 1 July 2010.

Interest rate risk sensitivity
The Company is primarily exposed to interest rate risk through its loan facility with ING Bank N.V. The sensitivity is as follows:

– Borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings (net of cash at bank) at the year end were £25,718,000 (2009: £14,666,000) and if that level of borrowings was maintained for a full year, then a 200 basis points change in LIBOR (up or down) would decrease or increase net revenue and total net return on ordinary activities after taxation by approximately £514,000 (2009: £293,000).

14.2 Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of the risk
Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company had unsecured sterling loan facilities totalling £32,000,000 (2009: £20,000,000) and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facilities are subject to regular review.

The Board gives guidance to the Investment Manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should generally remain fully invested and that short-term borrowings be used to manage short term cash requirements.

The contractual maturities of the financial liabilities at 30 September based on the earliest date on which payment can be required are as follows:

	30 September 2010		30 September 2009	
	Due within three months £'000	**Due between 3 months and one year £'000**	Due within three months £'000	Due between 3 months and one year £'000
11.25% Debenture Stock 2010	**–**	**–**	–	6,675
Bank loans and interest	**28,247**	**–**	17,175	–
Other creditors & accruals	**1,238**	**–**	744	–
	29,485	**–**	17,919	6,675

14.3 Credit and counterparty risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Notes to the Financial Statements
continued

14 Financial risk management policies and procedures (continued)

Management of the risk

The risk is managed as follows:

– investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Investment Manager, and limits are set on the amount that may be due from any one broker.

– cash at bank is held only with reputable banks with high quality external credit ratings.

14.4 Fair values of financial assets and financial liabilities

Except as noted below, the financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank, bank overdrafts and amounts due under the loan facility).

The par value of the 11.25% debenture stock 2010 can be found in note 13. The debenture stock was redeemed on 1 July 2010, the fair value of the debenture stock at 30 September 2009 was £6,478,000. The fair value was calculated using the prices quoted on the exchange on which the instrument traded (and excludes accrued interest).

14.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the FRS 29 fair value hierarchy.

Financial assets at fair value through profit or loss at 30 September 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	227,767	–	1,307	**229,074**

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data

A reconciliation of movements within Level 3 is set out below:	£'000
Opening balance	1,302
Total gains included in the Income Statement	5
Closing balance	**1,307**

14.6 Capital management policies and procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern; and to maximise the revenue and capital return to its equity shareholders. This is achieved through an appropriate balance of equity capital and debt.

The Company's capital at 30 September 2010 comprises its equity share capital, reserves and loans that are shown in the balance sheet at a total of £231,484,000 (2009: £196,633,000).

The Board, with the assistance of the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

– the planned level of gearing, which takes into account the Investment Manager's view on the market.

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures (continued)

– the need to buy back equity shares, either for cancellation or to hold in treasury, which takes account of the difference between the net asset value per share and the share price (ie the level of share price discount or premium) as well as the discount of the peer group and the level of the equity market

– the need for new issues of equity shares, including sales from treasury

– the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to several externally imposed capital requirements:

– borrowings under the loan facility are not to exceed 45% of the adjusted net asset value

– as a public company, the Company has a minimum share capital of £50,000

– in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet the capital restriction tests imposed on investment companies by company law

The Company has complied with these requirements.

15 Called up share capital	2010 £'000	2009 £'000
Allotted, issued and fully paid		
26,417,427 (2009: 26,417,427) ordinary shares of 25p each	**6,604**	6,604

16 Share premium account	2010 £'000	2009 £'000
At the start and end of the year	**53,561**	53,561

17 Capital redemption reserve and other capital reserves	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
At 30 September 2009	**1,007**	(27,883)	131,952	**104,069**
Transfer on disposal of investments	**–**	8,117	(8,117)	**–**
Net gains on investments	**–**	28,702	2,253	**30,955**
Exchange differences	**–**	–	(38)	**(38)**
At 30 September 2010	**1,007**	**8,936**	**126,050**	**134,986**

The capital reserve arising on revaluation of investments held at 30 September 2010 includes a gain of £1,204,000 (2009: loss of £1,325,000) based on historical book cost, in respect of the revaluation of unquoted investments.

Notes to the Financial Statements

continued

18 Revenue reserve

	£'000
At 1 October 2009	8,392
Net revenue return for the year after tax	5,933
Net dividends paid (note 10)	(6,999)
At 30 September 2010	**7,326**

19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £203,484,000 (2009: £173,633,000) and on 26,417,427 (2009: 26,417,427) shares in issue on 30 September 2010.

An alternative net asset value per ordinary share can be calculated, by deducting from the total assets less current liabilities of the Company the debenture stock at market (or fair) value rather than at par (or book) value. The net asset value per ordinary share at 30 September 2009 calculated on this basis was 655.5p.

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

	2010 £'000
Total net assets at 1 October 2009	**173,633**
Total net return on ordinary activities after taxation	**36,850**
Net dividends paid in the year:	
Ordinary shares	**(6,999)**
Net assets attributable to the ordinary shares at 30 September 2010	**203,484**

20 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 30 September 2010 (2009: £nil).

Contingent liabilities

There were contingent liabilities of £nil in respect of sub-underwriting participations as at 30 September 2010 (2009: £2,095,000). Subsequent to the year ended 2009, the Company was not required to take up any shares in respect of these underwriting commitments.

21 VAT on management fees

Following the 2007 decision by the European Court of Justice that Value Added Tax ("VAT") should not be charged on fees paid for management services provided to investment trust companies, over the previous two financial years the Company received in total £1,238,000 in VAT reclaims relating to management fees paid during the periods 1 January 1990 to 4 December 1996 and 1 October 2000 to 30 June 2007. In addition, the Company received £371,000 of simple interest on those VAT reclaims, which was included in the financial statements to 30 September 2009. No further reclaims of VAT or interest were expected or received during the year under review.

Notes to the Financial Statements

continued

22	**Reconciliation of operating revenue to net cash inflow from operating activities**	**2010 £'000**	2009 £'000
	Total return before finance charges and taxation	**38,004**	3,325
	(Less)/add capital (return)/loss before finance charges and taxation	**(30,917)**	3,764
	Net revenue return before finance charges and taxation	**7,087**	7,089
	(Increase)/decrease in prepayments and accrued income	**(172)**	373
	Decrease in other debtors	**–**	779
	Decrease in other creditors and accruals	**(27)**	(65)
	Income tax suffered on property income dividends	**(24)**	(45)
	Stock dividend included in investment income	**–**	(24)
	Overseas withholding tax suffered	**(90)**	(33)
		6,774	8,074

23	**Analysis of changes in net debt**	1 October 2009 £'000	Cash flow £'000	Exchange Movements £'000	**30 September 2010 £'000**
	Net cash:				
	Cash at bank	2,334	(14)	(38)	**2,282**
	Creditors:				
	Debt falling due within one year	(23,000)	(5,000)	–	**(28,000)**
	Net debt	(20,666)	(5,014)	(38)	**(25,718)**

24 Transactions with the management company

Under the terms of an agreement dated 27 August 2009 the Company has appointed subsidiaries of Henderson Group plc ("Henderson") to provide investment management, accounting, secretarial and administrative services.

Details of the fee arrangements for these services are given in the Directors' Report on pages 15 and 16. The total of the fees paid or payable to Henderson under this agreement in respect of the year ended 30 September 2010 was £924,000 (2009: £1,030,000). The amount outstanding at 30 September 2010 was £261,000 (2009: £254,000).

In addition to the above services, Henderson has provided the Company with marketing services. The total fees paid or payable for these services for the year ended 30 September 2010 was £27,000 (2009: £13,000), of which £8,000 was outstanding at 30 September 2010 (2009: £4,000).

Independent Auditors' Report

to the members of Lowland Investment Company plc

We have audited the financial statements of Lowland Investment Company plc for the year ended 30 September 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2010 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 14, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Clare Thompson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, 22 November 2010

Glossary of Terms

AIC
The Association of Investment Companies.

Benchmark
The FTSE All-Share Total Return.

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

Gearing
The gearing percentage reflects the amount of borrowings (ie bank loans) the Company has used to invest in the market. In a falling market, the gearing effect will have a negative contribution to performance, whereas in a rising market it will have a positive contribution.

There are several methods of calculating gearing and the following has been selected:

Investments as a percentage of equity shareholders' funds minus 100.

Investment Trusts
Investment trusts are public limited companies, quoted on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments. Income, net of expenses and tax, is substantially distributed to shareholders.

Net Asset Value (NAV) per Ordinary Share
The value of the Company's assets (investments and cash held) less any liabilities (bank loans) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV per share is published daily.

Performance Attribution Analysis
A performance attribution analysis shows how the Company achieved its recorded performance relative to its benchmark. This is broken down to show the effect of stock selection, gearing, expenses and any changes in share capital made during the year. In a falling market, the gearing effect will have a negative contribution to performance, whereas in a rising market it will have a positive contribution.

Premium/Discount
The amount by which the market price per share of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV.

Total Expense Ratio
This is the total expenses incurred by the Company in the year expressed as a percentage of the average shareholders' funds at the beginning and end of the year.

Total Return
This is the return on the share price or net asset value per share taking into account both the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Trust's assets (for net asset value total return).

Website
Further information on the Company can be found on **www.lowlandinvestment.com**

General Investor Information

Disability Discrimination Act

Copies of this Annual Report and Financial Statements and 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 the Registrar, Computershare Investor Services PLC, which has 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, by dialling 0870 702 0005. 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 Deaf People) dial 18001 followed by the number you wish to dial.

BACS

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on the inside back cover) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Share Price Listings

The share price, net asset value and other information can be found on the website: **www.lowlandinvestment.com** 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 0536806.

Release of Results

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

Dividends

The Company pays a first interim dividend in June and a second interim dividend, in lieu of a final dividend, in December.

Shareholder Details

Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, via **www.computershare.com**. Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

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.

Investors in Halifax Share Dealing Limited (formerly Itshenderson) and other Henderson ISAs receive all shareholder communications. Voting forms are provided to facilitate voting.

Warning to Shareholders

Over recent years many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk US or UK investments. These operations are commonly known as "boiler rooms". These brokers can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/laws/alerts/overseas.shtml

If you are in any doubt about the veracity of an unsolicited phone call, please contact either the Company Secretary or the Registrar at the numbers provided on the inside back cover. More detailed information on this or similar activity can be found on the CFEB website www.moneymadeclear.fsa.gov.uk

General Investor Information

continued

Directors
John P D Hancox (Chairman)
Rupert G M L Barclay (Chairman of the Audit Committee)
Kevin J Carter
Karl S Sternberg
Peter J C Troughton

Investment Manager
Henderson Global Investors Limited,
authorised and regulated by the Financial Services Authority
Portfolio Manager: James Henderson
Deputy Portfolio Manager: Ben Lofthouse

Secretary
Henderson Secretarial Services Limited,
represented by Wendy King FCIS

Registered Office
201 Bishopsgate
London EC2M 3AE

Registered Number
Registered in England and Wales No. 670489

The Company is a member of

aic
The Association of Investment Companies

London Stock Exchange
LISTED
PREMIUM

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The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 707 1117

Independent Auditors
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Hay's Galleria
1 Hay's Lane
London SE1 2RD

Stockbroker
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10 Aldermanbury
London EC2V 7RF

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ISA Department
Henderson Global Investors
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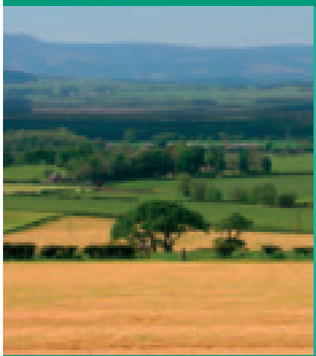
Website: www.halifax.co.uk



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Henderson
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