

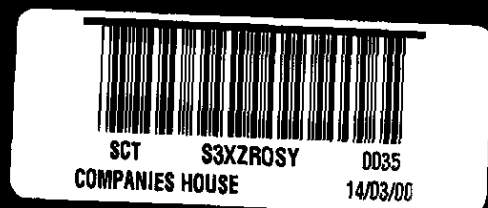
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1999

Dunedin Smaller Companies Investment Trust PLC

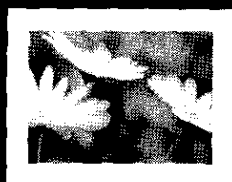
Annual Report and Accounts 31 October 1999



Jim.

its investment trusts





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Objective

The achievement of long term capital growth from a portfolio of smaller companies in the United Kingdom, at a higher rate than the FTSE Small Cap Index (excluding Investment Trusts).

Financial Summary

	31 October 1999	31 October 1998	% change
Net asset value (p)	507.7	356.7	+42.4
FTSE Small Cap Index (ex Investment Trusts)	2,596	1,974	+31.5
Total dividend (p)	12.4	11.9	+4.2
Share price (p)	383.5	292.0	31.3



Chairman's Statement

the companies in general, and your trust in particular, had a successful year. The net asset value (NAV) of the trust rose compared to a rise in the FTSE Small Cap Index (excluding investment trusts) of 4.5%. The significant outperformance of the trust was due to investment in a combination of core excellent prospects and a number of companies which were realised by takeover. The rise in NAV partly reflected the strong rally in smaller company shares from the lows



The share price increased from 292p to 383.5p an increase of 31.3%. The rise in the share price relative to the net asset value reflected the widening of the discount which was seen in other similar investment trusts. Your board and manager remain committed to the reduction of the discount.

Cash flow from investment income remained strong and your board recommends a final dividend of 8.4p. The total dividend for the year, if approved, will be 12.4p, an increase of 4.2%.

Background

The period under review has proved to be good, particularly for the share price of smaller companies. The reduction in UK interest rates from 7.25% to a low of 5% in the summer was of benefit as it ensured that the UK economy would avoid the feared recession. Throughout the year smaller companies offered good exposure to the UK economic cycle and were helped by increasing economic confidence. The undervaluation of smaller companies attracted institutional and corporate investors. Takeover activity was an important feature during the year with in excess of 10% of the index being subject to such activity. This helped the FTSE Small Cap Index (ex Investment Trusts) to outperform the 16% rise in the FT All Share Index.

The increase in interest rates in September took investors by surprise and impacted negatively on

the market, particularly engineering and cyclical stocks as investors reassessed the economic outlook. The trust continued to outperform over this period due to an overweight position in growth sectors, particularly information technology. The resulting fall in share prices has once again increased the valuation discrepancy between small and large companies, a discrepancy, which the managers believe is unjustified given the excellent prospects for many smaller companies.

Revenue Account

Smaller companies have continued to produce dividend growth in excess of the current rate of inflation resulting in an increase of 4.5% in earnings per share from 14.67p to 15.33p.

Corporate Issues

During the year shareholder approval was given for the board to take powers to implement a share buy back scheme. Purchase of shares at a discount for cancellation will enhance net asset value and may improve the balance between supply and demand for your company's shares. Your board will look to use these powers when suitable opportunities arise.

There has been much comment on potential computer and related problems associated with the year 2000. A report from the manager and secretary has been reviewed by the board and we are satisfied that appropriate action is being taken. The board is being kept informed of additional measures being taken to ensure a successful transition.



Chairman's Statement

The AITC Marketing Campaign

The Association of Investment Trust Companies has commenced a major media campaign to raise the public's awareness of the benefits of investment trusts with a view to creating more demand for shares in the sector. The board is supportive of the campaign which has been funded by the majority of the investment trust industry, broadly according to size. Dunedin Smaller Companies Investment Trust has agreed to contribute £57,000 in the first year, reducing to £28,250 in the second year and £14,250 in year three.

The campaign, in conjunction with the marketing initiative set up by our manager, Edinburgh Fund Managers, will make potential investors more aware of the Investment Trust sector and encourage private shareholders to acquire the shares of Dunedin Smaller Companies Investment Trust.

Corporate Governance

As a Stock Exchange listed company, this Trust is required to consider the degree to which it complies with the guidelines emanating from the Cadbury and Hampel Reports. In line with best practice, your Board meets regularly with the manager, auditor and other advisors and is in compliance with its corporate governance responsibilities.

Outlook

After a strong run in smaller company shares during 1999, recent interest rate increases have resulted in a setback in share prices. Although a similar increase unsettled smaller company shares in the summer of 1998, current conditions are more favourable. With low inflation, and the likelihood of further interest rate rises limited, the background is for robust growth. With valuations in many sectors still at a discount to larger companies and smaller companies being well represented in the growth sectors of technology and media, the outlook is further enhanced. Corporate activity, a feature of the last year, is likely to remain high providing further support to the market.

Annual General Meeting

The AGM will be held at Donaldson House, Edinburgh on 14 February 2000. I look forward to welcoming as many of you as possible. Whether or not you are attending, I would encourage you to vote for the resolutions being put to the meeting.

The board would like to thank Edinburgh Fund Managers and in particular, Andrew Bamford, the trust's manager, for their support and the good performance of your trust.

The Earl of Dalhousie

Chairman

15 December 1999



Manager's Review

The financial year saw strong gains recorded by the smaller company sector. Against this positive background, the company recorded a good performance in absolute and relative terms. Over the year, the company's net asset value rose by 42.4% compared to a rise in the benchmark index of 31.5%. These gains compared favourably to the FT All-Share Index return of 16.0% over the same period.

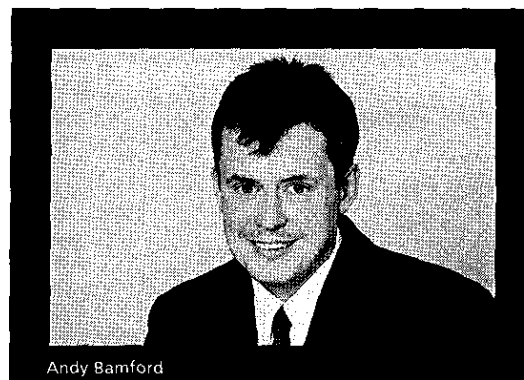
Market Background

After the sharp falls in smaller company share prices between May and October 1998, the period under review marked a welcome return to favour for smaller companies. The low point was reached in October 1998 when valuations on smaller companies reflected a highly pessimistic view of the UK economy. The prospect of recession was averted by a decisive downward move in interest rates.

During the first quarter of 1999, the fear of recession abated and the equity market focused on the prospects for UK economic recovery and growth. Smaller companies with their high exposure to consumer cyclical earnings, housebuilding and services represented an attractive investment opportunity.

The attractive fundamentals of many smaller companies and their undervaluation, led to unprecedented levels of takeover activity. This had a significant influence on the returns from the smaller company market with well in excess of 10% of the index subject to takeover. This helped to rationalise the sector and release funds for reinvestment into other undervalued smaller companies.

The evidence of economic recovery was most evident in the consumer sectors and in particular the housing market. Statistics showed above average wage settlements and the Monetary Policy Committee moved to raise interest rates in early September as a pre-emptive move against inflation. The decision undermined confidence in the fragile recovery emerging in the consumer and industrial



Andy Bamford

sectors and in these sectors shares retreated. The market reverted to its previous focus on growth companies and in particular information technology. Prospects for this sector look positive given the pent up demand to be released post-millennium, high comparative valuations in the US and the publicity surrounding the launch of a new technology index, techmark.

Portfolio

The portfolio is structured with a risk controlled strategy that aims to deliver consistent outperformance. The strategy is to have a spine of blue chip investments running through the portfolio which is augmented by a combination of value investments and emerging growth companies. We continue to place a strong emphasis on the quality of earnings and cash generation exhibited by the companies. This discipline applies as much to media and information technology sectors where we have steered away from speculative, unprofitable businesses.

Over the year, the company has enjoyed an above average exposure to takeover activity in the portfolio. Takeovers included Brands Hatch, Cala, Field and Westminster Healthcare. At the same time the company benefited from strong performances from emerging growth companies such as Fitness First, Imagination Technology, Incepta and NSB.



Manager's Review

Disappointing performances were recorded by certain cyclical stocks where the economic recovery failed to come through in profitability. Two company specific problems were Alldays and Gresham Computing and the holdings have been sold.

Outlook

Unlike 1998, the economy is in a much better position to absorb recent interest rate rises. There is at present a political determination to position the UK as a low inflation, stable growth economy. This leads to the equity market focussing heavily on "growth" companies which are being pushed to new valuation highs. At the same time there is some exceptional value to be seen in the out of favour sectors. Corporate activity will continue to be an important influence on the smaller companies market highlighting this relative undervaluation.

The company will be positioned with an above average exposure to growth sectors. The challenge remains to identify the next emerging growth companies and a number of outstanding candidates are included in the portfolio.

The returns generated in 1999 reflect a degree of recovery after the setback of 1998. However the robust economic background, relative undervaluation of smaller companies and prospect of corporate activity offer confidence for the year ahead.

Edinburgh Fund Managers plc

15 December 1999



Distribution of Investments

at 31 October

	1999		1998	
	£000	%	£000	%
Resources				
Oil & gas	1,730	1.8	1,541	2.4
	1,730	1.8	1,541	2.4
Basic industrials				
Chemicals	2,309	2.5	2,397	3.7
Construction & building materials	7,573	8.1	5,355	8.2
Forestry & paper	—	—	393	0.6
	9,882	10.6	8,145	12.5
General industrials				
Aerospace & defence	1,693	1.8	432	0.7
Electronic & electrical equipment	808	0.9	1,086	1.7
Engineering & machinery	4,199	4.5	5,621	8.6
	6,700	7.2	7,139	11.0
Cyclicals consumer				
Automobiles	840	0.9	775	1.2
Housing goods & textiles	3,016	3.2	2,714	4.2
	3,856	4.1	3,489	5.4
Non-cyclicals consumer				
Beverages	1,262	1.3	569	0.9
Food producers & processors	1,280	1.4	646	1.0
Health	—	—	595	0.9
Packaging	550	0.6	1,060	1.6
Personal care & household products	—	—	216	0.4
Pharmaceuticals	580	0.6	—	—
	3,672	3.9	3,086	4.8
Cyclical services				
Distributors	7,007	7.5	6,380	9.8
General retailers	6,426	6.9	2,449	3.8
Leisure, entertainment & hotels	6,942	7.4	5,113	7.9
Media & photography	7,418	7.9	4,776	7.3
Breweries, pubs & restaurants	3,298	3.5	1,859	2.9
Support services	9,729	10.4	2,901	4.4
Transport	1,480	1.6	1,530	2.4
	42,300	45.2	25,008	38.5
Non-cyclical services				
Food & drug retailer	701	0.7	870	1.3
	701	0.7	870	1.3
Financials				
Insurance	1,231	1.3	1,815	2.8
Speciality & other financial	5,118	5.5	3,368	5.2
Investment companies	25	—	39	0.1
Real estate	7,422	7.9	6,518	10.0
	13,796	14.7	11,740	18.1
Information technology				
Information technology hardware	1,360	1.5	1,075	1.6
Software & computer services	9,671	10.3	2,839	4.4
	11,031	11.8	3,914	6.0
Total equities	93,668	100.0	64,932	100.0

Overseas investments amount to £196,000 (1998—£177,000).



List of Largest Investments

at 31 October 1999

Company	Market Value £000	Sector Classification
BTG	1,752	Support services
Freeport Leisure	1,557	Real estate
Headlam	1,502	Distributors
Incepta	1,500	Media & photography
GWR Group	1,474	Media & photography
Azlan Group	1,377	Software & computer services
Britt Allcroft	1,367	Media & photography
Imagination Technology	1,360	Information technology
Axon Group	1,352	Software & computer services
Heal's	1,351	General retailers
Ten largest investments	14,592	15.6% of the total value of investments
Savills	1,286	Real estate
Highland Distillers	1,262	Beverages
John Mowlem	1,260	Construction & building materials
Brands Hatch Leisure	1,240	Leisure, entertainment & hotels
Wembley	1,198	Leisure, entertainment & hotels
Dawson International	1,172	Housing goods & textiles
Ricardo	1,150	Support services
Pillar Property	1,137	Real estate
Southnews	1,132	Media & photography
BSS Group	1,120	Distributors
Twenty largest investments	26,549	28.3% of the total value of investments
Merant	1,115	Software & computer services
John Menzies	1,113	Distributors
Compel Group	1,073	Software & computer services
Simon Group	1,055	Support services
Rutland Trust	1,015	Speciality & other financial
Macdonald Hotels	996	Leisure, entertainment & hotels
Expro International	991	Oil & gas
SIG Group	973	Construction & building materials
Amey	961	Construction & building materials
Allied London Properties	945	Real estate
Thirty largest investments	36,786	39.3% of the total value of investments



Ten Year Record

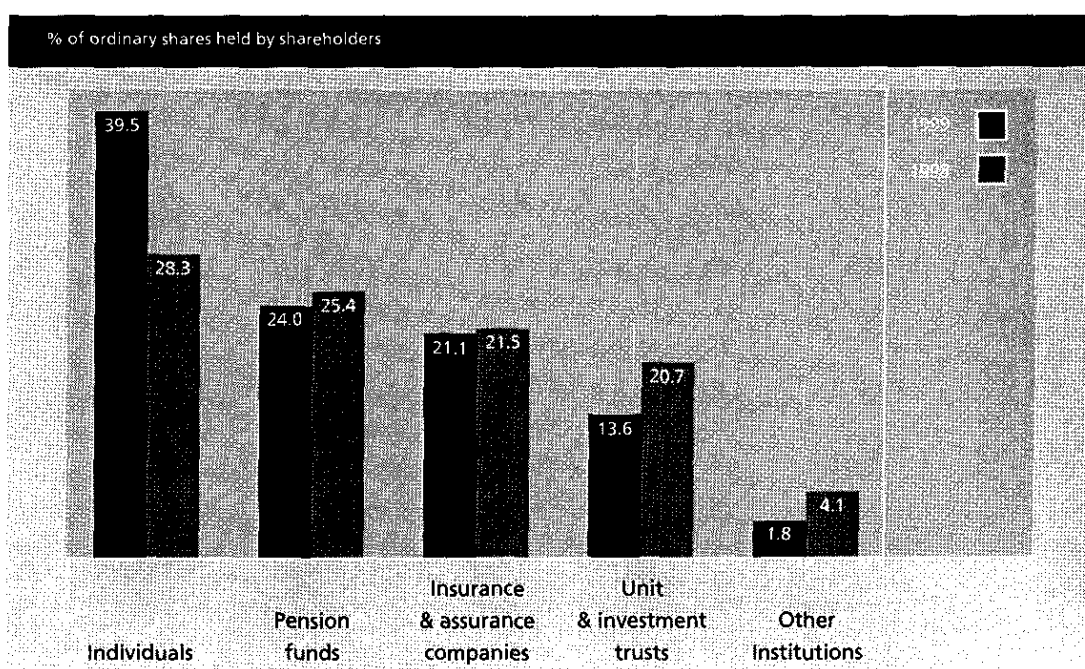
Year ended 31 October	Net Assets before borrowings £000	Preference stock and other borrowings £000	Equity shareholders' funds £000	Revenue available for ordinary dividends £000	Net asset value per share p	Earnings per share p	Dividends per share p	Share price p
1989	54,150	425	53,725	1,797	319.8	10.70	10.5	265.0
1990	42,413	425	41,988	2,030	249.9	12.08	12.0	227.0
1991	46,916	425	46,491	1,902	276.7	11.32	12.0	273.0
1992	37,518	425	37,093	1,821	220.8	10.84	12.0	219.0
1993	51,388	425	50,963	1,465	303.4	8.72	9.0	290.0
1994	57,933	5,000	52,933	1,506	315.1	8.96	9.0	306.0
1995	63,851	5,000	58,851	1,553	350.3	9.24	9.0	326.0
1996	72,614	5,000	67,714	1,602	402.5	9.54	9.0	346.0
1997	85,379	15,000	70,379	1,979	417.6	11.78	10.0	346.5
1998	75,136	15,000	60,136	2,463	356.6	14.67	11.9	292.0
1999	100,509	15,000	85,509	2,576	507.7	15.33	12.4	383.5

Notes:

Figures for 1995 and subsequent years reflect the changes in accounting treatment of management fees and finance costs. With effect from 1 November 1995, 75% of these costs have been charged to capital.

Analysis of Shareholders

at 31 October



Investment Changes

	Valuation at 31 October 1998 £000	Net purchases (sales) £000	Appreciation (depreciation) £000	Valuation at 31 October 1999 £000
United Kingdom	64,755	10,421	18,296	93,472
Overseas	177	(95)	114	196
Total investments	64,932	10,326	18,410	93,668

Comparison of Market Capitalisation

at 31 October 1999

Equity market capitalisation £m	Dunedin Smaller Companies Weighting %	FTSE Small Cap Index (excl investment trusts) weighting %
0-50	11.5	1.1
50-100	21.8	12.3
100-150	22.4	16.8
150-200	10.1	16.7
200-250	12.4	22.9
250-300	5.6	13.2
300+	16.2	17.0
Total	100.0	100.0



Corporate Information

Registered Office

Belsize House

West Ferry

Dundee DD5 1NF

Telephone: 01382-778244

Manager and Secretary

Edinburgh Fund Managers plc

Donaldson House

97 Haymarket Terrace

Edinburgh EH12 5HD

Telephone: 0131-313 1000

Website: www.edfd.com

Regulated by IMRO and
the Personal Investment Authority

Registrar

Lloyds TSB Registrars Scotland

117 Dundas Street

Edinburgh EH3 5ED

Telephone: 0870-601 5366

Banker

Bank of New York Europe Limited

67 Lombard Street

London EC3P 3DL

Auditors

KPMG Audit Plc

Saltire Court

20 Castle Terrace

Edinburgh EH1 2EG

Company Broker

Deutsche Bank

Company Registration Number

SC 14692



Directors' Report

Business and status

The company carries on business as an investment trust and, for the purpose of the Income and Corporation Taxes Act 1988, has been treated by the Inland Revenue as approved as such for the year ended 31 October 1998, the latest year for which accounts have been submitted. The company has subsequently conducted its affairs so as to enable it to continue to seek such approval.

The company is an investment company within the terms of Section 266 of the Companies Act 1985.

The company has conducted its affairs in such a way as to comply with the requirements under the PEP and ISA regulations. The company intends to conduct its affairs in such a way as to continue to satisfy these requirements.

Review of activities

During the year the company followed the normal activities of an investment trust. Details of these are given in the Chairman's Statement and the Manager's Review.

Dividends

The directors recommend that a final dividend of 8.4p is paid to shareholders on the register on 10 January 2000 (1998-8.4p) and propose that the company's revenue surplus for the year of £493,000 (1998-£464,000) be transferred to the revenue reserve.

Directors

Ray Entwistle was appointed a director on 18 December 1998 and, in accordance with the Articles of Association, retired at the Annual General Meeting held on 1 February 1999.

A resolution for his election as a director was passed at this Annual General Meeting. Gordon Lowden retired from the board on 1 February 1999.

In accordance with the Articles of Association, The Earl of Dalhousie retires from the board by rotation and will be proposed for re-election at the Annual General Meeting.

The names of the directors and their holdings in the company's shares are shown in Table 1 below. The company has not been notified of any changes in the holdings between 31 October 1999 and 15 December 1999. No contract or arrangement subsisted during the period in which any of the directors was materially interested. No director had a service contract with the company.

Payments Policy

The company's payment policy is to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to business taking place.

Year 2000 Compliance

The year 2000 compliance project is being implemented by Edinburgh Fund Managers plc (the 'manager') to ensure that its systems and services continue to operate into the new millennium. The manager completed the audit, testing and upgrade phases of the project during 1998. Contingency planning, supplier monitoring and critical systems re-testing have continued throughout 1999. All costs will be met by the manager.

Corporate Governance

Compliance

The company is committed to high standards of corporate governance. The board is accountable to the company's shareholders for good governance and this statement describes how the company applies the principles identified in the Combined Code (appended to the London Stock Exchange Listing Rules).

The board confirms that the company has complied throughout the accounting period with the

	Ordinary 25p shares		Nature of interest
	31.10.99	31.10.98	
The Earl of Dalhousie	4,000	4,000	Beneficial
R M Entwistle	2,000	2,000*	Beneficial
M G N Walker	2,000	2,000	Beneficial
N M Yarrow	4,000	4,000	Beneficial

Table 1 Directors and their holdings in the company

* Holding at date of appointment on 18 December 1998



Directors' Report

provisions set out in Section 1 of the Code except for provisions which relate to the re-election of directors every three years. The new provisions introduced by the Code relating to the re-election of directors have now been implemented. As permitted by the London Stock Exchange, and until the implementation of further guidance for directors, the company has complied with provision D(2.1) of the Code on internal controls by reporting on internal financial controls in accordance with guidance issued in 1994.

Directors

The Earl of Dalhousie and Messrs Entwistle, Walker and Yarrow are considered by the board to be independent of the company and the manager and free of any material relationship with the manager which could interfere with the exercise of their independent judgement.

Synopses of the board members appear on page 11 of the annual report. Each director has the requisite high level and range of business and financial experience which enables the board to provide clear and effective leadership and proper stewardship of the company. The senior independent director is Mr Walker.

The board meets at least four times each year and more frequently where business needs require. The board has a schedule of matters reserved to it for decision and the requirement for board approval on these matters is communicated directly to the senior staff of the manager. Such matters include strategy, borrowings, treasury and dividend policy. Full and timely information is provided to the board to enable the directors to function effectively and to discharge their responsibilities. The board also reviews the financial statements, performance and revenue budgets.

The board considers that the post of chief executive officer is not relevant for an investment trust company as this role has effectively been delegated to the manager under the terms of the investment management agreement.

There is an agreed procedure for directors to take

independent professional advice if necessary and at the company's expense. This is in addition to the access which every director has to the advice and services of the company secretary, Edinburgh Fund Managers plc, which is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

Appointments to the board of directors are considered by the whole board. Possible new directors are identified against the requirements of the company's business and the need to have a balanced board. External search consultants may be used to ensure that a wide range of candidates can be considered. Every director is entitled to receive appropriate training as deemed necessary.

A director appointed during the year is required, under the provisions of the company's Articles of Association, to retire and seek election by shareholders at the next annual general meeting. The Articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting. In addition, all directors are required to submit themselves for re-election at least every three years.

Relations with shareholders

The directors place a great deal of importance on communication with shareholders. The report and accounts are widely distributed to other parties who have an interest in the company's performance. Shareholders and investors may obtain up to date information on the company through the manager's freephone information service and the company responds to letters from shareholders on a wide range of issues.

The notice of the annual general meeting included within the annual report and accounts is sent out at least 20 working days in advance of the meeting. All shareholders have the opportunity to put questions at the company's annual general meeting.

Proxy voting as an institutional shareholder

The manager has the right to vote on behalf of the



Directors' Report

company if they believe it is appropriate.

Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements appear on pages 15 and 16.

The board is responsible for maintaining a system of internal control designed to provide assurance with regard to the safeguarding of assets, the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication. The responsibility to ensure compliance with regulations and company law to provide effective and efficient operation and investment management has been delegated to the manager under the terms of the investment management agreement.

The manager operates control policies and procedures to safeguard the assets of the company and to manage its affairs properly. The system also extends to operational and compliance controls and risk management. Clear lines of accountability have been established and regular detailed reports of financial information are provided to the board. The manager's internal audit function operates an annual audit programme which covers a review of the major internal controls.

The directors have reviewed the effectiveness of the system of internal financial controls which has been in operation during the year. Any system of *internal financial control can only provide* reasonable and not absolute assurance of meeting the internal financial control objectives.

The directors have appointed an audit and

management engagement committee, chaired by Mr Yarrow. The committee considers reports from the external auditors as well as from the manager. The scope and effectiveness of the external audit is also kept under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. Non-audit fees of £1,100 were paid in respect of the interim audit work during the year under review.

Substantial share interests

At 15 December 1999 the substantial interests in the ordinary share capital which had been notified to the company are shown in Table 2.

Auditors

The company's auditors, KPMG Audit Plc, are willing to continue in office and resolutions will be proposed at the Annual General Meeting to re-appoint them and to authorise the directors to fix their remuneration.

Annual General Meeting – Special business

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting:-

(i) Repurchase of the Company's own ordinary shares

At the Extraordinary General Meeting of the Company held on 4 August 1999, shareholders passed a resolution giving the Company authority to make purchases of up to 14.99 per cent of the then issued share capital of the Company.

During the period August to October 1999 the Company has not utilised this authority but wishes the ability to use it in due course should it be deemed appropriate.

Although the authority is not due to expire until 3 February 2001, it was indicated at the time of the Extraordinary General Meeting that the Directors intended to seek ordinary shareholders approval for renewal of the authority at the Company's Annual General Meeting to be held in February 2000.

Holder	No of ordinary shares	%
United Assurance Group plc	1,650,000	9.8
The Edinburgh Investment Trust plc	1,630,000	9.7
Prudential Corporation plc	987,800	5.9
Derbyshire County Council	700,000	4.2
DC Thomson & Company Ltd	580,000	3.5
AXA Sun Life Investment Management	531,582	3.2

Table 2 Substantial share interests



Directors' Report

Resolution number 6 set out in the notice of Annual General Meeting seeks to renew the authority to purchase Ordinary Shares. The principal reasons for such purchases are to enhance the net asset value of the Ordinary Shares by purchasing Ordinary Shares at prices which, after allowing for costs, represent a discount to the prevailing net asset value and also to address any imbalance between the supply of and demand for Ordinary Shares.

Under the Listing Rules of the London Stock Exchange, the maximum price that may be paid on the exercise of the authority must not exceed 105 per cent of the average of the middle market quotations for the Ordinary Shares over the five business days immediately preceding the date of purchase. The minimum price which may be paid will be 25p per Ordinary Shares. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Directors.

The Directors recommend that shareholders vote in favour of resolution number 6.

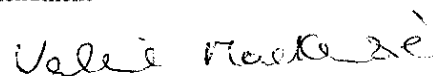
(ii) Amendment to the Articles of Association

At the Extraordinary General Meeting of the Company held on 4 August 1999, in addition

to approving purchases by the Company of Ordinary Shares, the shareholders also approved amendments to the Articles of Association of the Company in order to facilitate such purchases. An amendment to the Companies Act 1985, which became effective on 8 November 1999, now permits an investment company's Memorandum of Articles of Association to prohibit distributions of capital profits other than by way of the redemption or purchase of the Company's own shares. The proposed amendment to the Articles of Association set out in resolution 7 in the notice of Annual General Meeting will clarify the ability of the company to regain its status as an investment company whilst continuing to purchase its own Ordinary Stock.

The Directors recommend that shareholders vote in favour of such an amendment

By order of the board,



Edinburgh Fund Managers plc

Secretary

Edinburgh, 15 December 1999

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the revenue of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they comply with all the above requirements. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and to detect fraud and other irregularities.



Auditors' Report

To the members of Dunedin Smaller Companies Investment Trust PLC

We have audited the financial statements on pages 17 to 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 15 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinions as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 12 to 14 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with

the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 October 1999 and of the return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc

Chartered Accountants
Registered Auditor

Edinburgh, 15 December 1999



Statement of Total Return

for the year ended 31 October

	Notes	Revenue £000	1999 Capital £000	Total £000	Revenue £000	1998 Capital £000	Total £000
Realised gains on investments	15	—	7,738	7,738	—	14,333	14,333
Unrealised gains on investments	16	—	18,410	18,410	—	(23,786)	(23,786)
Foreign exchange losses	15	—	(4)	(4)	—	—	—
Investment income	2	3,091	—	3,091	3,156	—	3,156
Interest receivable on short term deposits		453	—	453	457	—	457
Other income		43	—	43	54	—	54
Investment management fee	3	(104)	(311)	(415)	(102)	(305)	(407)
Administrative expenses	4/15	(234)	(4)	(238)	(190)	—	(190)
NET RETURN BEFORE FINANCE COSTS AND TAXATION							
		3,249	25,829	29,078	3,375	(9,758)	(6,383)
Interest payable and similar charges	5	(321)	(949)	(1,270)	(318)	(949)	(1,267)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION							
		2,928	24,880	27,808	3,057	(10,707)	(7,650)
Taxation	6	(352)	—	(352)	(594)	—	(594)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION							
		2,576	24,880	27,456	2,463	(10,707)	(8,244)
Dividends in respect of equity shares	7	(2,083)	—	(2,083)	(1,999)	—	(1,999)
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS							
		493	24,880	25,373	464	(10,707)	(10,243)
RETURN PER ORDINARY SHARE							
	8	15.33p	148.10p	163.43p	14.67p	(63.74p)	(49.07p)

The revenue column of this statement represents the revenue account of the company.

All revenue and capital items in the above statement derive from continuing operations.



Balance Sheet

at 31 October

	Notes	1999 £000	1998 £000
FIXED ASSETS			
Investments	9	93,668	64,932
CURRENT ASSETS			
Debtors	11	1,464	2,960
UK Treasury Bills		4,958	4,920
Cash and short term deposits	21	3,076	4,421
		<u>9,498</u>	<u>12,301</u>
CREDITORS: AMOUNTS FALLING			
DUE WITHIN ONE YEAR	12	<u>(2,866)</u>	<u>(2,315)</u>
NET CURRENT ASSETS		6,632	9,986
TOTAL ASSETS LESS CURRENT LIABILITIES		100,300	74,918
CREDITORS: AMOUNTS FALLING			
DUE AFTER MORE THAN ONE YEAR	13	<u>(14,791)</u>	<u>(14,782)</u>
		85,509	60,136
CAPITAL AND RESERVES			
Called up share capital	14		
Ordinary shares		4,200	4,200
Capital reserve – realised	15	72,141	65,671
Capital reserve – unrealised	16	6,726	(11,684)
Capital redemption reserve	17	425	425
Revenue reserve	18	2,017	1,524
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>85,509</u>	<u>60,136</u>
NET ASSET VALUE PER ORDINARY SHARE	23	<u>507.74p</u>	<u>356.65p</u>

The financial statements on pages 17 to 27 were approved by the board on 15 December 1999 and were signed on its behalf by:

THE EARL OF DALHOUSIE, Director

Dalhousie



Cashflow Statement

for the year ended 31 October

	Notes	1999 £000	1998 £000
NET CASH INFLOW			
FROM OPERATING ACTIVITIES	19	2,343	2,263
SERVICING OF FINANCE			
Interest paid		(1,261)	(1,258)
NET CASH OUTFLOW			
FROM SERVICING OF FINANCE		(1,261)	(1,258)
TAXATION			
UK tax paid		(126)	214
TOTAL TAX PAID		(126)	214
FINANCIAL INVESTMENT			
Purchase of investments		(41,258)	(43,828)
Sale of investments		41,082	45,316
NET CASH OUTFLOW			
FROM FINANCIAL INVESTMENT		(176)	1,488
EQUITY DIVIDENDS PAID		(2,083)	(1,764)
NET CASH OUTFLOW BEFORE FINANCING		(1,303)	943
NET CASH OUTFLOW FROM MANAGEMENT OF LIQUID RESOURCES		(38)	(4,920)
DECREASE IN CASH	21	(1,341)	(3,977)
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT			
Decrease in cash		(1,341)	(3,977)
Amortised premium and expenses of debenture stock		(9)	(9)
Net changes in liquid resources		38	4,920
Foreign exchange differences		(4)	—
Movement in net debt		(1,316)	934
Opening net debt	22	(5,441)	(6,375)
Closing net debt	22	(6,757)	(5,441)



Notes to the Accounts

1 Accounting policies

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

(a) **Revenue, expenses and interest payable** – Income from investments, including taxes deducted at source and imputed tax credits, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on fixed interest securities, short term deposits, expenses and interest payable are treated on an accruals basis.

Expenses are charged to capital where they are incurred in connection with the maintenance or enhancement of the value of the investments. In this respect the investment management fee and relevant finance costs are allocated 25% to revenue and 75% to capital, in line with the board's expectation of returns from the company's investments over the long term in the form of income and capital respectively.

(b) **Investments** – Listed investments are valued at market prices, foreign currencies being converted at the rates of exchange ruling at the relevant balance sheet date. Unlisted investments, which include investments traded on the Alternative Investment Market or under Rule 4.2(a) of The Stock Exchange, are valued by the directors taking account of latest dealing prices, brokers' valuations and other available accounting information as appropriate.

(c) **Realised capital reserves** – Gains and losses on realisation of investments and differences on exchange are dealt with in the realised capital reserves. 75% of the investment management fee and finance costs along with the associated irrecoverable VAT are charged to this reserve. The associated tax relief is credited to this reserve.

(d) **Unrealised capital reserves** – Increases and decreases in the valuation of investments held are dealt with in the unrealised capital reserve.

(e) **Taxation** – Deferred taxation is provided for on short term timing differences.

2 Investment income

	1999		1998	
	Franked £000	Unfranked £000	Franked £000	Unfranked £000
Dividends				
Listed: United Kingdom	3,009	77	2,958	196
Unlisted: Overseas	—	5	—	2
	<u>3,009</u>	<u>82</u>	<u>2,958</u>	<u>198</u>
Total investment income	<u>3,091</u>		<u>3,156</u>	



Notes to the Accounts

	1999 £000	1998 £000
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3 Investment management fee

Investment management fee	353	346
Irrecoverable VAT thereon	62	61
	<u>415</u>	<u>407</u>
Charged against capital reserve – realised	(311)	(305)
	<u>104</u>	<u>102</u>

The management fee paid to Edinburgh Fund Managers plc is 0.4% per annum of the total assets of the company after deducting current liabilities and excluding commonly managed funds. For the 12 months to June 1998, the fee was also subject to a rebate of 0.2% on net new borrowings. The fee is subject to VAT at the appropriate rate. The management fee is chargeable 25% to revenue and 75% to capital.

The management agreement between the company and Edinburgh Fund Managers plc is terminable by either party on 2 years' notice.

4 Administrative expenses

Secretarial fees	53	52
Directors' fees	34	32
Investment trust initiative	19	13
Registrars fees	22	22
Its marketing campaign	19	—
Irrecoverable VAT	24	18
Other expenses	63	53
	<u>234</u>	<u>190</u>

The secretarial fee of £53,000 is paid to Edinburgh Fund Managers plc. A contribution of £19,000 (1998–£13,000) was paid to Edinburgh Fund Managers plc in respect of marketing and promotion of the company through their Investment Trust Initiative.

The chairman who was the highest paid director received £10,000 (1998–£10,000) per annum. The emoluments of the other directors were £7,500 each (1998–£7,500) per annum.

Auditor's remuneration amounted to £5,675 (1998–£5,450). Remuneration paid to the auditors for non-audit services amounted to £1,100 (1998–£1,100).

5 Interest payable and similar charges

Bank overdraft	5	2
8.375% debenture stock interest	1,256	1,256
Amortised debenture stock premium and issue expenses	9	9
	<u>1,270</u>	<u>1,267</u>
Charged against capital reserve – realised	(949)	(949)
	<u>321</u>	<u>318</u>



Notes to the Accounts

1999
£000

1998
£000

6 Taxation

Tax credits attributable to franked investment income	352	594
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7 Dividends

Interim dividend of 4.0p (1998–3.5p) paid 9 June 1999	672	588
Final dividend of 8.4p (1998–8.4p) payable 16 February 2000	1,411	1,411
	<u>2,083</u>	<u>1,999</u>

8 Return per ordinary share

The return per ordinary share is based on the following figures:

	1999	1998
Revenue return	£2,576,000	£2,463,000
Capital return	£24,880,000	(£10,707,000)
Number of ordinary shares in issue	16,800,000	16,800,000

Listed in UK
£000

Unlisted
£000

Total
£000

9 Investments

Valuation at 31 October 1998	64,715	217	64,932
Unrealised depreciation at 31 October 1998	11,692	(8)	11,684
Book cost at 31 October 1998	76,407	209	76,616
Additions at cost	41,922	—	41,922
Disposals at cost	(31,474)	(122)	(31,596)
Book cost at 31 October 1999	86,855	87	86,942
Unrealised appreciation at 31 October 1999	6,592	134	6,726
Valuation at 31 October 1999	<u>93,447</u>	<u>221</u>	<u>93,668</u>

1999
£000

1998
£000

10 Unlisted investments

Unquoted	221	217
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Notes to the Accounts

	1999 £000	1998 £000
11 Debtors		
Net dividends and interest receivable	642	403
Amounts due from brokers	795	2,543
Other debtors and prepayments	27	14
	<u>1,464</u>	<u>2,960</u>

12 Creditors: amounts falling due within one year

Amounts due to brokers	780	116
Taxation	—	126
Debenture interest	611	611
Other creditors	64	51
Final dividend	1,411	1,411
	<u>2,866</u>	<u>2,315</u>

13 Creditors: amounts falling due after one year

Repayable after more than 5 years:		
8.375% debenture stock 2022	15,000	15,000
Unamortised debenture stock premium and issue expenses	(209)	(218)
	<u>14,791</u>	<u>14,782</u>

The debenture stock is redeemable at par on 6 May 2022 and interest is payable in half-yearly instalments in May and November each year. The debenture stock is secured by a floating charge over the whole of the assets of the company.

The market value of the debenture stock as at 31 October 1999 was £19,425,000 (1998—£19,575,000).

The effect of the net asset value of deducting the debenture stock at market value rather than at par is disclosed in note 24.

14 Called up share capital

Authorised:		
20,800,000 (1998—20,800,000) ordinary shares of 25p each	<u>5,200</u>	<u>5,200</u>
Issued and fully paid:		
16,800,000 (1998—16,800,000) ordinary shares of 25p each	<u>4,200</u>	<u>4,200</u>



Notes to the Accounts

1999
£000

1998
£000

15 Capital reserve – realised

Balance at 31 October 1998	65,671	52,592
Realised net gain on investments	7,738	14,333
Debenture stock interest	(942)	(942)
Amortised debenture stock premium and issue expenses	(7)	(7)
Management fee	(311)	(305)
Foreign exchange losses during year	(4)	—
Legal fees re repurchase of own shares	(4)	—
Balance at 31 October 1999	<u>72,141</u>	<u>65,671</u>

75% of the management fees, loan interest, debenture stock interest, debenture stock premium and issue expenses have been allocated to this capital reserve.

16 Capital reserve – unrealised

Balance at 31 October 1998	(11,684)	12,102
Increase on revaluation of investments	<u>18,410</u>	<u>(23,786)</u>
Balance at 31 October 1999	<u>6,726</u>	<u>(11,684)</u>

17 Capital redemption reserve

At 31 October 1999 and 31 October 1998	<u>425</u>	<u>425</u>
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18 Revenue reserve

Balance at 31 October 1998	1,524	1,060
Transferred from revenue account	<u>493</u>	<u>464</u>
Balance at 31 October 1999	<u>2,017</u>	<u>1,524</u>

19 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

Revenue before interest and taxation	3,249	3,375
Increase in accrued income	(194)	(189)
Increase in other debtors	(13)	(4)
Increase/(decrease) in creditors	13	(1)
Tax credits attributable to franked investment income	(397)	(593)
Scrip dividends taken up	—	(20)
Management fee charged to capital	(311)	(305)
Accrued legal fees charged to capital	(4)	—
	<u>2,343</u>	<u>2,263</u>



Notes to the Accounts

20 Analysis of changes in financing during the year

	1999		1998	
	Share capital £000	Debentures & loans £000	Share capital £000	Debentures & loans £000
At 31 October 1999 and 31 October 1998	<u>4,200</u>	<u>15,000</u>	<u>4,200</u>	<u>15,000</u>
			1999 £000	1998 £000

21 Analysis of changes in cash during the year

Balance at 31 October 1998	4,421	8,398
Net cash (outflow)	(1,341)	(3,977)
Effect of foreign exchange rate movements	(4)	—
Balance at 31 October 1999	<u>3,076</u>	<u>4,421</u>

22 Analysis of changes in net debt

	Balance at 31 October 1998 £000	Cash flows £000	Currency movements £000	Amortisation of issue expenses and premium £000	Balance at 31 October 1999 £000
Cash and short term deposits	4,421	(1,341)	(4)	—	3,076
UK Treasury Bills	4,920	38	—	—	4,958
Debt due after more than one year	(14,782)	—	—	(9)	(14,791)
Net debt	<u>(5,441)</u>	<u>(1,303)</u>	<u>(4)</u>	<u>(9)</u>	<u>(6,757)</u>
				1999 £000	1998 £000

23 Total shareholders' funds

Total shareholders' funds attributed to equity shares	<u>85,509</u>	<u>60,136</u>
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Total shareholders' funds have been calculated in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'. However, the net asset value per share figures in note 24 have been calculated on the basis of shareholders' rights to reserves adjusted to reflect the deduction of the debenture at par. A reconciliation of the two figures is as follows:

	1999	1998
Shareholders' funds attributable as above	85,509,000	£60,136,000
Number of equity shares in issue at year end	16,800,000	16,800,000
	31 October 1999 p	31 October 1998 p
Funds per share	508.98	357.95
Deduct: Unamortised premium and expenses of debenture issue	(1.24)	(1.30)
At 31 October 1999	<u>507.74</u>	<u>356.65</u>



Notes to the Accounts

24 Net asset value per share

The net asset value per share and the net assets attributable to the ordinary shareholders at the year end, adjusted to reflect the deduction of the debenture at par, were as follows:

	1999 p	1998 p	1999 £000	1998 £000
Ordinary shares	507.74	356.65	85,300	59,918

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

	1999 £000	1998 £000
Total assets at 31 October 1998	59,918	70,152
Total recognised capital gains/(losses) for the year	24,880	(10,707)
Revenue return for the year	2,576	2,463
Dividends appropriated in the year	(2,083)	(1,999)
Movement in unamortised debenture stock premium and issue expenses	9	9
Total assets at 31 October 1999	<u>85,300</u>	<u>59,918</u>

This net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of debentures at par) and on 16,800,000 (1998-16,800,000) ordinary shares, being the number of ordinary shares in issue at the year end. The analysis of shareholders' funds on the face of the balance sheet has been computed in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments', and does not reflect the rights under the Articles of Association of the respective classes of shares on a return of assets. A reconciliation of the two sets of figures is given in note 23.

The net asset value per share adjusted to include the debenture stock at market value rather than par is 481.40p (1998-329.42p).

25 Reconciliation of movement in equity shareholders' funds

Equity shareholders' funds at 31 October 1998	60,136	70,379
Total recognised capital (losses)/gains for the year	24,880	(10,707)
Net revenue for the year	493	464
Equity shareholders' funds at 31 October 1999	<u>85,509</u>	<u>60,136</u>

26 Commitments and contingencies

There are placing commitments of £170,000 (1998-nil).



Notes to the Accounts

27 Risk management, financial assets and liabilities

The following information is given in accordance with Financial Reporting Standard 13.

Risk management

The major risks associated with the company are market risk, liquidity risk and interest rate risk. The company has established a framework for managing these risks which is evolving continually as the company's investment activities change in response to market developments. The directors have provided the manager with guidelines for the management of gearing, investments and financial instruments.

Market risk arises from changes in interest rates, valuations awarded to equities, movements in prices and the liquidity of financial instruments. Market price risk is managed through investment guidelines agreed by the board with the manager and is discussed at each board meeting. It is the company's policy to increase its exposure to equity market price risk through the investment of borrowings which increase the opportunity for growth in rising markets but increases risk when markets fall. The downside risk may be reduced by increasing the level of cash balances through the sale of equities.

All of the company's long term debt is fixed rate which exposes the company to changes in market value in the event that the debt is repaid before maturity. The debenture stocks in issue provide secure long term funding while short term flexibility is achieved through overdraft facilities.

Information on the debenture stock is provided in note 13.

Financial assets and liabilities

The company's financial instruments comprise equity investments, treasury bills, cash balances, debenture stock and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement.

Fixed asset investments (see note 9) are valued at middle market prices which equate to their fair values. The fair value of all other current assets and liabilities is represented by their carrying values in the balance sheet.

At the balance sheet date the company held nil coupon UK treasury bill with market values of £4,958,000 which matured on 15 December 1999. Cash and short term deposits are held in floating rate accounts.



Notice of Meeting

Notice is hereby given that the seventy second Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held in Donaldson House, Haymarket Terrace, Edinburgh on Monday 14 February 2000 at 12 noon, for the following purposes:

ORDINARY BUSINESS

1. To receive the Report of the Directors and the Accounts for the year to 31 October 1999;
2. To declare a final dividend of 8.4p on the ordinary shares;
3. To re-elect The Earl of Dalhousie as a director of the company;
4. To re-appoint KPMG Audit Plc as auditor of the company;
5. To authorise the directors to fix the remuneration of the auditors for the year to 31 October 1999.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution.

Special Resolution

6. That the company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 (the 'Act') to make purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 25p each in the company ('shares') provided that:
 - (i) the maximum number of shares hereby authorised to be purchased is 14.99% of the issued share capital of the company as at the date of the passing of this resolution;
 - (ii) the minimum price which may be paid for a share shall be 25p;

(iii) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and

(iv) unless renewed, the authority hereby conferred shall expire on 13 August 2000 save that the company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

7. That, the Articles of Association of the Company (the "Articles") be amended as follows:-

(a) by deleting the following sentence where it appears in Article 144.1 thereof:-

"provided that, subject to Article 144.2, no part of the capital reserve or any other moneys in the nature of accretion to capital shall in any event be available for distribution as dividend or, to the extent prohibited by section 266 of the Act, any other distribution (within the meaning ascribed thereto by section 263(2) of the Act."

and by inserting therefore the following sentence:-

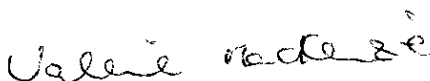
"provided that, no part of the Capital Reserve or any other monies in the nature of accretion to capital shall in any event be available for distribution as dividend or any other distribution (within the meaning ascribed thereto by section 263(2) of the Act) otherwise than by way of the redemption or purchase of any of the Company's own shares in accordance with sections 160 or 162 of the Act."; and

(b) by deleting Article 144.2 in its entirety.



Notice of Meeting

By order of the board



Edinburgh Fund Managers plc

Secretary

7 January 2000

Registered office: Belsize House, West Ferry,
Dundee DD5 1NF

Notes:

1. Holders of ordinary shares are entitled to attend and vote at the meeting.

Members must be entered on the company's register of members 48 hours before the time appointed for the meeting. If the meeting is adjourned for more than 48 hours then, for members to be entitled to vote, they must be entered on the company's register of members 48 hours prior to the time fixed for the adjourned meeting. Any such holder may appoint another person (whether a member of the company or not) as his proxy to attend and vote on a poll in his stead. Proxies must be lodged at the company's registrar, Lloyds TSB Registrars, 117 Dundas Street, Edinburgh EH3 5ED not less than 48 hours before the time appointed for the meeting. Completion of a form of proxy will not prevent a holder of ordinary shares from attending or voting in person should he so wish.

3. There are special arrangements for holders of shares through The Edinburgh Fund Managers Investment Trust Savings Plan, Investment Trust PEP/ISA and Investment Trust Pension. These are explained in the 'Letter of Directions' which such holders will have received with this report.



Financial Calendar

Announcements and the issue of the annual and interim reports may normally be expected in the following months:

December – Preliminary results for year and recommended final dividend for year announced.

January – Annual report and accounts published.

February – Annual General Meeting and final dividend paid.

June – Interim figures announced and interim report for half-year to 30 April published.

July – Interim dividend paid

This year's Annual General Meeting will be held in Donaldson House, 97 Haymarket Terrace, Edinburgh on Monday 14 February 2000 at 12 noon.



The Company is a member of The Association of Investment Trust Companies.



Information for Investors

EDINBURGH FUND MANAGERS

Edinburgh Fund Managers plc was formally established in 1969 and has grown steadily since that time now with offices in Dundee, Canada and North America. Today Edinburgh Fund Managers is one of the largest managers of investment trusts in the UK with over £3.8 billion of funds under management as at 31 October 1999. Total assets managed by the group at the same date were over £7.3 billion.

Investment Trusts

It is the business of investment trusts, advised by their managers, to invest in the shares of other companies. The investment objectives vary from trust to trust ranging from investment for capital growth and/or income, to trusts which invest internationally, in a specific area of the world or in a single country market. Investing in investment trusts can provide a spread of investments, managed by experts, at low cost.

HOW TO INVEST

Ordinary shares

Investors can buy and sell shares in Dunedin Smaller Companies Investment Trust directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through The Edinburgh Fund Managers Investment Trust Savings Plan, Investment Trust ISA and Investment Trust Pension.

PRODUCT DETAILS

InvestIT – The Edinburgh Fund Managers Investment Trust Savings Plan

InvestIT provides a straightforward way to invest in Dunedin Smaller Companies Investment Trust and other investment trusts managed by Edinburgh Fund Managers. Investors can make regular monthly payments (minimum £30 per month) or invest occasional lump sums (minimum £250 initially and £30 thereafter). Existing shareholders can also invest in the Plan and have their dividends reinvested. There is **no charge** for buying or holding shares through InvestIT other than 0.5%

Government Stamp Duty which is currently payable on all share purchases. There is a nominal £10 + VAT transaction fee applied to all sales.

Edinburgh Fund Managers

Investment Trust ISA/PEP

ISA

The Edinburgh Fund Managers Investment Trust Individual Savings Account (ISA) is the new tax efficient savings vehicle. There are two types of ISAs available, a Maxi and a Mini. A Maxi ISA allows investors to maximise the amounts placed in stocks and shares. Investors will have the opportunity to invest up to £7,000 in the tax year 1999/2000 (£5,000 per annum thereafter) in Dunedin Smaller Companies Investment Trust where they take out a Maxi ISA.

A feature of the Edinburgh Fund Managers Investment Trust ISA is its low charges. The initial charge is £30 + VAT and the annual management fee is 0.5% + VAT. No charges are made for buying or selling shares other than Government Stamp Duty on share purchases.

PEP

PEP investors can continue to hold their existing PEPs after 5 April 1999 but these will be ringfenced. No further contributions can therefore be made to Dunedin Smaller Companies Investment Trust through a PEP other than reinvestment of any income generated. However, investors will be able to transfer between different PEP funds and different PEP providers without losing their tax advantages. To enable new investors to take advantage of investing in a PEP in Dunedin Smaller Companies Investment Trust, a PEP transfer brochure is available. Again charges are low with no transfer fee being charged. An annual management charge of 0.5% + VAT capped at £40 + VAT is charged.

The Edinburgh Fund Managers

Investment Trust Pension

The Investment Trust Pension enables investors to save for retirement by investing in Dunedin Smaller Companies Investment Trust. The



Information for Investors

Investment Trust Pension offers the choice of a Personal Pension Plan or a Free Standing Additional Voluntary Contributions Plan. Contributions can be made monthly, yearly or by lump sums, and there are low minimum investment amounts.

Note

Please remember that past performance is not necessarily a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

Keeping you informed

The company's share price appears under the heading 'Investment Trusts' in the Financial Times, and other national newspapers. Investors can also obtain the latest share price by phoning FT Cityline on 0336-432 385. All calls cost 60p per minute.

For internet users, detailed data on Dunedin Smaller Companies Investment Trust, including price and performance information, is available on the Edinburgh Fund Managers website (<http://www.edfd.com>) and the TrustNet website (<http://www.trustnet.co.uk>).

Lloyds TSB Registrars also have a website (<http://www.lloydstsb-registrars.co.uk>) which includes a page entitled 'Shareholder Services', which gives shareholders an insight into their shareholding. The website also has information about how to register a change of name and what to do if you have lost your share certificate.

For information concerning your shareholding, please contact:

Registrar

Lloyds TSB Registrars Scotland
117 Dundas Street
Edinburgh EH3 5ED
Telephone: 0870-601 5366
Text Phone: 0870-600 3950

For information and application forms on the InvestIT, ISA, PEP, Pension and Share Exchange Schemes please contact:

Support Desk

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone: 0131-313 1000
or FREE on 0800-028 6789 (24 hours)

InvestIT Administrator

Lloyds TSB Registrars Scotland
Registrar Department (SP)
117 Dundas Street
Edinburgh EH3 5ED
Telephone: 0870-606 0268

Individual Savings Account/Personal Equity Plan Administrator

Cogent Investment Operations Limited
PEP/ISA Administrator
3 Finsbury Avenue
London EC2M 2PA
Telephone: 0171-410 4018

Pension Administrator

Edinburgh Pension Centre
Personal Pension Management Limited
24-27 Barnack Business Centre
Blakey Road
Salisbury
Wiltshire SP1 2LP
Telephone: 0800-137 079

