

OFFERING CIRCULAR

DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

*(An investment trust incorporated in Scotland under
the Companies Acts 1908 to 1917 with Registered No. SC014692)*

£15,000,000

8 $\frac{3}{8}$ per cent. Debenture Stock 2022

at £● per cent. payable in full on acceptance

100.321

London STOCK EXCHANGE

Listing Department

Document approved

Date: 29 April 1997

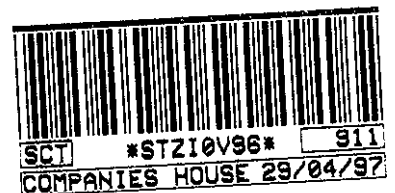
Signed: 1 *V. Woodroffe*

2 *V. Spence*

NATWEST MARKETS

29 April 1997

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A copy of this document, which comprises listing particulars relating to the issue of £15,000,000 8% per cent. Debenture Stock 2022 (the "Stock") by Dunedin Smaller Companies Investment Trust PLC (the "Company") in accordance with the listing rules made under Part IV of the Financial Services Act 1986, has been delivered to the Registrar of Companies in Scotland for registration as required by section 149 of that Act.

Application has been made to London Stock Exchange Limited (the "London Stock Exchange") for the Stock to be admitted to the Official List.

The Directors of the Company, whose names appear on page 10 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

In connection with the issue of the Stock, NatWest Capital Markets Limited (as agent for National Westminster Bank Plc) ("NWCM") may over-allot or effect transactions which stabilise or maintain the market price of the Stock on the London Stock Exchange at a level which might not otherwise prevail on that exchange. Such stabilisation, if commenced, may be discontinued at any time.

Terms defined in paragraph 1 of the Section headed "Particulars of the Stock" are, except where the context otherwise requires, used with the same meanings elsewhere in this document.

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CAPITALISATION AND INDEBTEDNESS

1. Share capital

The present authorised and issued share capital of the Company is as follows:

Authorised	Issued and Fully Paid		Authorised	Issued and Fully Paid
20,800,000	16,800,000	ordinary shares of 25p each	£5,200,000	£4,200,000

2. Loan capital and other indebtedness

As at close of business on 31 March 1997 the loan capital of the Company was as follows:

A short term unsecured loan £5,000,000

At 31 March 1997 the Company had cash totalling £2,331,972.05.

Save as disclosed above, the Company did not have outstanding at 31 March 1997 any borrowings or indebtedness in the nature of borrowing, including loan capital issued, or created but unissued, term loans, bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or any mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities.

PARTICULARS OF THE STOCK

The £15,000,000 8% per cent. Debenture Stock 2022 (the "Stock") of the Company now being issued was created by a resolution of the Board of Directors of the Company passed on 28 April 1997 and will be constituted by and secured pursuant to a trust deed expected to be dated on or about 6 May 1997 (the "Trust Deed") between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Stock (the "Stockholders"). The Trust Deed contains, *inter alia*, provisions to the following effect:

1. Definitions

(a) The following expressions shall have the following meanings, namely:

"Adjusted Total of Capital and Reserves" means the aggregate of the amount for the time being paid up or credited as paid up on the issued share capital of the Company and the total of the capital and revenue reserves (including any share premium account, capital redemption reserve, unrealised appreciation on investments and credit balance on revenue account), all as shown in the balance sheet of the Company, but: (i) adjusted as may be appropriate in respect of any subsequent variation in such paid up share capital, share premium account or capital redemption reserve and so that for this purpose if the Company proposes to issue any shares for cash and the issue has been underwritten then the amount (including any premium) of the subscription moneys payable not later than three months after the date of allotment shall be deemed to have been paid up at the date when the underwriting obligation shall have become unconditional; (ii) after making the appropriate deduction in respect of any distribution to members of the Company out of profits earned down to the date of the relevant balance sheet and not provided for therein; (iii) excluding all sums set aside for taxation (including such provision as the Auditors shall consider appropriate to take account of contingent liabilities to taxation (if any) in respect of chargeable gains calculated by reference to the unrealised appreciation of assets); (iv) deducting all amounts attributable to goodwill and other intangible assets and any debit balance on revenue account and any other reserve account; (v) excluding any amounts attributable to minority interests in subsidiaries; and (vi) after making such other adjustments (if any) as the Auditors shall consider appropriate;

"Auditors" means the auditor or auditors for the time being of the Company or, in the event of their being unable or unwilling to carry out any action requested of them pursuant to the provisions of the Trust Deed, such other firm of chartered accountants as may be nominated or approved in writing by the Trustee for the purpose after consultation with the Company;

"balance sheet" means the latest published audited balance sheet of the Company unless as at the date to which audited accounts incorporating such balance sheet are made up the Company shall have a subsidiary or subsidiaries, in which event "balance sheet" means the consolidated balance sheet as at the said date (and where in the event of the Company having a subsidiary or subsidiaries a consolidated balance sheet has not been prepared at such date, "balance sheet" means a consolidated balance sheet prepared by the Company as at such date and reported on by the Auditors as having been properly prepared) and references to reserves and revenue account shall be deemed to be references to consolidated reserves and consolidated revenue account respectively;

to **"extend"**, in relation to a *pari passu* Charge or a Prior Charge (each as defined in paragraph 6 below), means to increase the maximum principal amount for which the same is available as security;

"Further Stock" means any further debenture stock which may be created and issued by the Company pursuant to paragraph 6(a) below;

"relevant system" shall have the meaning ascribed to such term in the Uncertificated Securities Regulations;

"Subsidiaries' Indebtedness" means the aggregate of all amounts required to be taken into account for the purposes of paragraph 5(a) as moneys borrowed by subsidiaries;

"subsidiary" means a subsidiary (as defined in Section 736 of the Companies Act 1985) for the time being of the Company; and

"Uncertificated Securities Regulations" means the Uncertificated Securities Regulations (S.I. 1995 No. 95/3272) including any modification thereof or any regulations in substitution therefor made under section 207 of the Companies Act 1989 and for the time being in force.

(b) For the purposes of these Particulars:

- (1) "moneys borrowed" shall be deemed to include the following except in so far as otherwise taken into account:
- (a) the principal amount for the time being outstanding in respect of any issued debenture (within the meaning of Section 744 of the Companies Act 1985) whether issued in whole or in part for cash or otherwise;
 - (b) the principal amount raised by acceptances or under any acceptance credit opened on behalf of the Company and in its favour by any bank or accepting house; and
 - (c) the nominal amount of any issued share capital and the principal amount of any borrowed moneys or other indebtedness, together in each case with any fixed or minimum premium payable on final repayment, of any body whether corporate or unincorporated, the repayment of which is guaranteed or secured by, or is the subject of an indemnity given by, the Company and the beneficial interest in the right to repayment whereof is not owned by the Company;

but shall not include moneys borrowed otherwise falling to be taken into account pursuant to paragraph 5(a) below and intended to be applied within six months of being so borrowed in the repayment of the whole or any part of moneys borrowed then outstanding which fall to be taken into account pursuant to such paragraph pending their application for such purpose within such period, provided that where the new moneys borrowed are secured but the moneys borrowed so to be repaid are unsecured the new moneys borrowed shall be taken into account and the moneys borrowed so to be repaid shall not;

- (2) moneys borrowed in or calculated by reference to a currency other than sterling shall be translated into sterling at the spot rate of any bank approved by the Trustee for the exchange of the relevant currency into sterling at 3.00 p.m. (London time) on the date of the latest balance sheet as aforesaid or the date of such borrowing, whichever is the later. The Company shall not, subject as provided in the Trust Deed, be in breach of the restriction contained in paragraph 5(a) below by reason only of a variation in the rate subsequent to such calculation;
- (3) references to Stock (or to a holding of Stock) being in uncertificated form or in certificated form are references, respectively, to Stock being an uncertificated unit of a security or a certificated unit of a security (as such terms are defined in the Uncertificated Securities Regulations).

2. Security

The Stock and any Further Stock will be secured by a first floating charge (the "Floating Charge") over the whole of the property (including uncalled capital) which is, or may be from time to time while the Floating Charge is in force, comprised in the Company's property and undertaking.

3. Interest

The Stock will carry interest at the rate of 8% per cent. per annum payable (less any tax required by law to be deducted) by equal half-yearly instalments on 6 May and 6 November in each year. The first payment of interest, which will be made on 6 November 1997, will be in respect of the period from (and including) 6 May 1997 to (but excluding) 6 November 1997 and will amount to £4.1875 (less any tax required by law to be deducted) per £100 nominal of the Stock.

4. Redemption and Purchase

- (a) Any of the Stock not previously purchased or redeemed by the Company as hereinafter provided will be redeemed at par on 6 May 2022 together with interest on the nominal amount of the Stock accrued up to and including the date of redemption.
- (b) The Company or any subsidiary may at any time purchase Stock in any manner and at any price, provided that (i) if purchases are made by tender, tenders must be available to all holders of the Stock alike and (ii) so long as the Stock is listed on the London Stock Exchange Limited (the "London Stock Exchange"), such purchases must comply with the relevant rules (if any) of the London Stock Exchange for the time being applicable.

- (c) Any Stock purchased by the Company or redeemed will be cancelled forthwith and will not be available for re-issue. Any Stock purchased by a subsidiary may be resold but, while held by a subsidiary, will not entitle the holder to vote at, or to be counted in the quorum for, any meeting of Stockholders and, for the purposes of the provisions contained in the Trust Deed concerning Trustee powers and discretions and meetings of Stockholders, will not be regarded as being in issue.
- (d) The Company may at any time, having given not less than 30 nor more than 45 days' notice in writing to the holders of the Stock, redeem the whole or any part of the Stock before 6 May 2022 at a price equal to whichever shall be the higher of the following:
- (i) par; and
 - (ii) that price (as reported in writing to the Company and the Trustee by a financial adviser approved by the Trustee) at which the Gross Redemption Yield on the Stock on the Relevant Date is equal to the Gross Redemption Yield at 3.00 p.m. (London time) on that date of 8 per cent. Treasury Stock 2021 while that stock is in issue and thereafter such government stock as the Trustee, with the advice of three brokers and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Trustee may approve, may agree to be appropriate and so that, for the purposes of this paragraph (ii), "Relevant Date" means the date which is the second business day in London prior to the date of the despatch of the notice of redemption referred to in this sub-paragraph (d) and "Gross Redemption Yield" means a yield calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Volume 105, Part 1, 1978, page 18,

together (in the case of both (i) and (ii) above) with interest on the nominal amount of the relevant Stock accrued up to and including the date of redemption.

If the Stock shall become repayable before 6 May 2022 in the event of winding-up or under any of the other enforcement provisions of the Trust Deed, it shall be repaid at the same price as that which would have been payable had it been redeemed pursuant to this paragraph (d) (except that for this purpose "Relevant Date" shall mean the date which is the second business day in London prior to the date on which the Stock becomes so repayable), together with interest on the nominal amount of the Stock accrued up to and including the date of repayment.

- (e) Any partial redemption of the Stock shall be either on the basis of selection by drawings (the method of such drawings to be approved by the Trustee) or, at the option of the Company, *pro rata* to holdings without involving the redemption of a fraction of £1 nominal of Stock. Any such drawing shall be made in lots of not more than £1,000 each or, if less than £2,000,000 in nominal amount of Stock is outstanding, in lots of not more than £100 each.
- (f) The Company may exercise its rights and powers of redemption and purchase as regards the Stock and any other series of Further Stock (not being a series which is identical and forms a single series with the Stock or any other series of Further Stock) at its sole discretion and without obligation to maintain the ratio between the principal amounts for the time being outstanding of stock of any series.

5. Restrictions

So long as any of the Stock remains outstanding:

- (a) the Company will procure that the aggregate principal amount (together with any fixed or minimum premium payable on final redemption) at any time outstanding in respect of all moneys borrowed (whether secured or unsecured) by the Company and any subsidiary (exclusive of moneys borrowed by the Company from and for the time being owing to and beneficially owned by any subsidiary or by any subsidiary from and for the time being owing to and beneficially owned by the Company or another subsidiary) shall not exceed a sum equal to the Adjusted Total of Capital and Reserves;
- (b) the Company will (save as provided in paragraph 6 below) be precluded from creating or extending any mortgage, charge, lien or other security interest on the whole or any part of its undertaking, property or assets, present and future, wheresoever situate (including any uncalled capital) and from acquiring any property or assets subject to a mortgage, charge, lien or other security interest, in any case ranking in priority to or *pari passu* with the Floating Charge;

- (c) the Company will endeavour to direct its affairs so as to enable it to satisfy the conditions required for approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988, as amended, extended or re-enacted from time to time, and will procure that no action is taken (whether by the acquisition of subsidiaries or otherwise howsoever) whereby the business of the Company would be carried on to a substantial extent otherwise than as an investment trust;
- (d) the Company will not reduce or cancel or purchase for consideration, the whole or any part of its issued share capital (otherwise than out of the proceeds of a fresh issue of shares made for the purpose) unless the Auditors shall have reported to the Trustee that immediately after such redemption, cancellation or purchase, as the case may be, none of the limits referred to in paragraphs 5(a) above and 7 below would be exceeded; and
- (e) the Company will procure that no Subsidiaries' Indebtedness shall be incurred or increased (for which purpose the acquisition of a subsidiary which has Subsidiaries' Indebtedness outstanding shall be deemed to be such an increase) if immediately thereafter any of the limits referred to in paragraph 7 below will be exceeded.

6. Powers

Power will be reserved to the Company (subject as provided in paragraph 7 below):

- (a) to create or extend floating charges (ranking in point of security *pari passu* with the Floating Charge) to secure Further Stock constituted by a deed supplemental to the Trust Deed and either forming a single series with the Stock or carrying such rights (including, without limitation, rights as to interest, premium, repayment and conversion) as the Directors of the Company may think fit, provided that:
 - (i) no Further Stock shall be paid up in whole or in part by way of capitalisation of reserves or undistributed profits of the Company or be issued by way of security for any other obligation of the Company or any obligation of another person;
 - (ii) any Further Stock shall be constituted and secured by a duly executed deed or deeds in favour of the Trustee in such form as the Trustee shall approve and every such deed shall be expressed to be supplemental to the Trust Deed;
 - (iii) upon any issue of Further Stock being constituted and secured in accordance with the foregoing provisions of this paragraph the Floating Charge and other floating charges securing the Further Stock so constituted and all Further Stock constituted by any supplemental deeds previously executed and the Stock and the premiums (if any) and the interest on all such Stock shall thenceforth rank *pari passu* in point of security; and
 - (iv) any Further Stock shall be deemed for the purposes of the Trust Deed to be issued on the day on which the same is allotted;
- (b) to create or extend floating charges (referred to in these Particulars as "*pari passu* Charges") as security for indebtedness or other liabilities, whether in sterling or other currencies, of the Company ranking in point of security *pari passu* with the Floating Charge; and
- (c) to create or extend fixed mortgages or charges on specific property as security for indebtedness or other liabilities, whether in sterling or other currencies, of the Company and to acquire property subject to a fixed mortgage or charge in each case ranking in point of security in priority to the Floating Charge (such fixed mortgages or charges referred to below as "Prior Charges").

7. Limits for the purpose of paragraph 6

- (a) The Company shall not be entitled to exercise any of the powers reserved in paragraph 6 above unless and until the Auditors shall have reported to the Trustee that immediately after such exercise (i) the borrowing limit set out in paragraph 5(a) above will not be exceeded and (ii) the aggregate principal amount for the time being outstanding of the Stock and any Further Stock and the principal amounts secured by all *pari passu* Charges and Prior Charges and the amount of Subsidiaries' Indebtedness (together with any fixed or minimum premium payable on final redemption) will not together exceed a sum equal to two-thirds of the Adjusted Total of Capital and Reserves.

- (b) The Company shall not be entitled to exercise the power reserved by paragraph 6(c) above unless and until the Auditors shall have reported to the Trustee that immediately after such exercise the aggregate maximum principal amount for which all Prior Charges are for the time being available as security and the amount of Subsidiaries' Indebtedness (together with any fixed or minimum premium payable on final redemption) will not together exceed a sum equal to one-fifth of the Adjusted Total of Capital and Reserves.

8. Listing

The Company will use its best endeavours to obtain and, so long as any of the Stock remains outstanding, maintain a listing for the Stock on the London Stock Exchange.

9. Modification of Rights and Waiver

Holders of the Stock and any Further Stock (or having regard to the provisions of the Trust Deed, any series thereof, as the case may be) will have power by Extraordinary Resolution, as defined in the Trust Deed, *inter alia*, to sanction any modification, abrogation or compromise of or arrangement in respect of their rights against the Company or against the whole or any part of its undertaking, property and assets, to assent to any modification of the provisions of the Trust Deed proposed or agreed to by the Company and also to sanction other matters as provided therein. In addition, the Trustee will have power, without the sanction or consent of the holders of the Stock or any Further Stock, at any time and from time to time to concur with the Company in making any modification to the provisions of the Trust Deed which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Stock or any Further Stock or which shall be required to correct a manifest error or is of a formal, minor or technical nature. The Trustee will also have power, without the sanction or consent of the holders of the Stock or any Further Stock, at any time and from time to time, if in the opinion of the Trustee the interests of the holders of the Stock, or any Further Stock will not be materially prejudiced thereby, to waive or authorise on such terms and subject to such conditions, if any, as the Trustee thinks fit, any breach or proposed breach by the Company of any of the covenants or provisions of the Trust Deed and to determine that any condition, event, act or omission which, but for such determination, would constitute an event of default under the Trust Deed shall not be treated as such.

10. Indemnification of Trustee

The Trust Deed will contain provisions for the indemnification of the Trustee and for its relief from responsibility. Any consent given and any discretion exercised by the Trustee may be given or exercised on such terms and subject to such conditions, if any, as the Trustee thinks fit and may be given or exercised with retrospective effect.

11. Transfer

The Stock will be registered and transferable in integral multiples of £1 nominal. It is anticipated that the Stock may be held in certificated or uncertificated form. If held in certificated form, the Stock may be transferred by instrument in writing in any usual or common form or in such other form as the Directors of the Company and the Trustee may approve. If the Stock is held in uncertificated form, the Stock may be transferred by means of a properly authenticated dematerialised instruction in accordance with the Uncertificated Securities Regulations and the Trust Deed. The transferor of any such Stock shall be deemed to remain the holder of that Stock until the name of the transferee is entered in the register in respect thereof. The Trustee may concur with the Company in making modifications to the provisions of the Trust Deed in order to reflect changes in the Uncertificated Securities Regulations or in the law and practice relating to the transfer of Stock in uncertificated form.

12. Appointment of New Trustee

The statutory power of appointing a new trustee is vested in the Company. A new trustee so appointed shall in the first place be approved by an Extraordinary Resolution of the holders of the Stock and any Further Stock.

13. Prescription

The Trust Deed will not contain any prescription periods.

14. Governing Law

The Trust Deed will be governed by and construed in accordance with English law and the Floating Charge will be governed by and construed in accordance with the law of Scotland.

OTHER INFORMATION RELATING TO THE ISSUE

1. Yield

The gross redemption yield on the Stock at the issue price of £100.321 per £100 nominal based on a gross annual interest rate of 8.341 per cent. is 8.341 per cent.

The gross redemption yield is calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Volume 105, Part 1, 1978, page 16.

2. Use of Proceeds

The net proceeds of the issue of the Stock, after deduction of the expenses of issue (including commissions), are expected to amount to approximately £14,903,000. It is intended that the proceeds will be used to repay existing short term indebtedness and for investment purposes.

3. Capital Cover

The total assets less current liabilities of the Company as shown by the audited accounts as at 31 October 1996 amounted to £67,614,000.

4. Income Cover

The revenue of the Company, before charging interest and taxation but after charging all other expenses, for the financial year ended 31 October 1996 was, on the basis of the audited accounts £2,140,000.

DESCRIPTION OF THE COMPANY

Dunedin Smaller Companies Investment Trust PLC ("the Company"), was originally established in 1927 as the Dundee & London Investment Trust Limited, was re-registered as a public limited company in 1981 and was renamed under its current name in 1994.

The objective of the Company is to achieve long-term capital growth from a portfolio of smaller companies in the United Kingdom, at a higher rate than the FT-SE Small Cap Index (excluding Investment Trusts). It is currently managed by Edinburgh Fund Managers plc, a major Scottish fund manager and one of the largest managers of investment trusts in the United Kingdom, with total funds under management of approximately £6.7 billion as at 31 March 1997.

The portfolio breakdown of the Company by market capitalisation was as follows as at 18 April 1997:

Market Capitalisation (£m)	% of Fund Value
0-50	19
50-100	24
100-150	21
150-200	15
200-250	10
250-300	7
Over 300	4

The Company has no subsidiary or parent undertakings.

The following table lists the Company's ten largest investments as at 31 March 1997:

Investment	Description	% Capital Owned	Cost (£)	Market Value (£)	EPS ⁽¹⁾	Dividend per Share Received in Full ⁽²⁾	Dividend Cover ⁽¹⁾
Headlam Group	Distributors	0.94	975,440	1,592,500	15.4	5.8	2.7
Parco Group	Distributors	0.84	840,237	1,340,625	22.5	8	2.8
Scottish Highland Hotels Group	Leisure & Hotels	3.43	131,506	1,315,125	10.3	0.5*	3.4*
Avon Rubber	Engineering, Vehicles	0.65	677,353	1,281,875	50.6	19.5	2.6
Pressac Holdings	Electronic & Electrical Equipment	1.06	713,948	1,200,440	11.3	3.9	2.9
Watson & Philip	Retailers, Food	0.58	610,501	1,166,250	35.5	17.5	2.0
City Centre Restaurants	Breweries, Pubs & Restaurants	0.39	359,744	1,128,750	6.6	2.5	2.6
Wyko	Distributors	1.08	592,605	1,124,679	6.8	2.25	3.0
Grampian	Media	0.81	1,000,330	1,111,500	11.6	5.4	2.1
Hicking Pentecost	Textiles & Apparel	1.27	753,274	1,105,909	20.7	6.5	3.2
			6,652,938	12,367,653			

Note 1 Figures from latest audited financial year for each investee company

Note 2 Received in most recent financial year

*Dividend for partial year, indication is 3p per annum

The following table shows the capital profit on investments for the year ended 31 October 1996:

	Listed Investments (£000)	Unlisted Investments (£000)
Increase (Decrease) in unrealised appreciation	7,088	(877)
Realised gains and losses	1,123	1,736
	8,211	859

The Directors of the Company (all of whom are non-executive) and their respective principal activities are:

Ian McMaster Clubb (Chairman) was appointed to the board on 21 March 1995 and has been Chairman since 12 December 1995. He is Chairman of Central Transport Rental Group and a director of First Choice Holidays, Shanks & McEwan Group, TLG, Expro International Group and B. Elliot.

Gordon Stuart Lowden has been a director since 1981, was formerly Chairman of the Dundee Port Authority and Managing Partner, KPMG, Dundee.

Michael Giles Neish Walker has been a director since 1982, is Chairman of Sidlaw Group and Ivory & Sime UK Smaller Companies Trust and is a director of Scottish Hydro-Electric.

Lord James Hubert Ramsay has been a director since 1993, is a founder of Enskilda Securities and between 1988 and 1991 was a director of Capel-Cure Myers Capital Management. He is Chairman of Jamestown Investments Limited and a director of Alex Brown and Sons Holdings Limited and Edinburgh Japan Trust.

The business address of each of the Directors is c/o Edinburgh Fund Managers plc, Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD.

FINANCIAL INFORMATION RELATING TO THE COMPANY

The financial information set out below is extracted from the audited accounts of the Company for the year ended 31 October 1996. The full audited accounts contain notes and those notes are available for inspection, together with the full accounts, at the registered office of the Company up to and including 13 May 1997.

1995 figures are restated to reflect changes arising from a change in the policy for accounting as recommended by the Investment Trust Statement of Recommended Practice (SORP).

The statement of total return and balance sheet as at 31 October 1996, which do not constitute statutory accounts of the Company, have been extracted from the statutory accounts for the year ended 31 October 1996 which have been delivered to the Registrar of Companies and on which the auditors gave an unqualified report under Section 235 of the Companies Act 1985.

Statement of total return (incorporating the revenue account) of the Company

	Year to 31 October 1996			Year to 31 October 1995 as restated		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Realised gains on investments	—	2,859	2,859	—	4,298	4,298
Unrealised gains on investments	—	6,211	6,211	—	1,959	1,959
Income from investments	2,334	—	2,334	2,153	—	2,153
Interest receivable on short-term deposits	56	—	56	47	—	47
Underwriting commission	48	—	48	127	—	127
Investment management fee	(69)	(250)	(319)	(59)	(202)	(261)
Other (expenses)/income	(229)	42	(187)	(206)	—	(206)
Net return before finance costs and taxation	2,140	8,862	11,002	2,062	6,055	8,117
Interest payable and similar charges	(104)	(237)	(341)	(92)	(263)	(355)
Net return on ordinary activities before tax	2,036	8,625	10,661	1,970	5,792	7,762
Tax on ordinary activities	(434)	48	(386)	(417)	85	(332)
Return on ordinary activities after tax for the financial year	1,602	8,673	10,275	1,553	5,877	7,430
Dividends and other appropriations in respect of equity shares	(1,512)	—	(1,512)	(1,512)	—	(1,512)
Return attributable to equity shareholders	90	8,673	8,763	41	5,877	5,918

Balance Sheet

	31 October 1996		31 October 1995 as restated	
	£000	£000	£000	£000
Fixed assets				
Investments		73,194		63,960
Current assets				
Debtors	829		459	
Cash and short-term deposits	140		761	
	<u>969</u>		<u>1,220</u>	
Less				
Creditors				
Amounts falling due within one year	6,549		6,329	
	<u>6,549</u>		<u>6,329</u>	
Net current liabilities		(5,580)		(5,109)
Total assets less current liabilities		<u>67,614</u>		<u>58,851</u>
Capital and reserves				
Called up share capital				
Ordinary shares		4,200		4,200
Capital reserves				
Redemption reserve		425		425
Realised reserves		42,145		39,683
Unrealised appreciation		20,083		13,872
		<u>761</u>		<u>671</u>
Revenue reserve				
		<u>67,614</u>		<u>58,851</u>
Ordinary shareholders' funds				

TAXATION

The statements below are based on current law and practice in the United Kingdom. They are general in nature, apply only to persons who are the beneficial owners of Stock and may not apply to certain classes of taxpayers (such as dealers). Persons who may be subject to tax in other jurisdictions or who are in any doubt as to their tax position should consult their professional advisers.

1. Stamp duty

No stamp duty or similar tax or duty is imposed in the United Kingdom on the issue, transfer or redemption of the Stock.

2. Income tax on interest payments

- (a) Payments of interest on the Stock will be made after deduction of an amount representing United Kingdom income tax at the lower rate (presently 20 per cent.) unless the Company has previously been directed by the Inland Revenue, in relation to a particular holding of Stock, to make payment gross or after deduction of income tax at a reduced rate under the provisions of an applicable double taxation treaty. Such a direction will be issued only on prior application to the Commissioners of Inland Revenue by the Stockholder in question.
- (b) Notwithstanding that interest is received subject to a deduction representing lower rate income tax, Stockholders who are resident in the United Kingdom for tax purposes or who, whilst not so resident, have a United Kingdom branch or agency, may, depending on the circumstances, be liable to pay further United Kingdom tax on the interest received or, in certain cases, be entitled to reclaim the tax deducted at source.¹

The Company will not "gross up" payments of interest to compensate for any deduction of income tax that it is, or hereafter may be, required to make.

3. Tax on disposal or redemption

(a) Income tax

Stockholders who are assessable to United Kingdom income tax on the interest payable on the Stock may be liable to pay tax or entitled to a relief from tax under the provisions of sections 710 to 728 of the Income and Corporation Taxes Act 1988 (the "Accrued Income Scheme") on any transfer of the Stock. In general, where the Accrued Income Scheme applies, an amount representing interest accrued to the date of transfer is assessable on the transferor and the transferee is entitled to a tax credit of a corresponding amount which may be offset against his liability to income tax on interest on the Stock.

(b) Capital Gains Tax

The Directors of the Company have been advised that the Stock will constitute qualifying corporate bonds within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992 so that on a disposal or redemption of the Stock neither a chargeable gain nor (generally) an allowable loss will arise for the purposes of United Kingdom tax on capital gains. However, certain losses (arising in limited circumstances and where the value of the Stock has become negligible or all or part of the outstanding principal amount of the Stock has become irrecoverable after its redemption date) may be allowable losses depending on the circumstances of the holder and the extent to which the proceeds of the issue are on-lent to subsidiaries of the Company for the purposes of certain types of trade.

(c) Corporation Tax

The Stock will constitute "loan relationships" within the meaning of Finance Act 1996. Accordingly, for holders which are companies within the charge to corporation tax, interest income and gains and losses arising to them in respect of the Stock will be brought into account in computing their taxable income for corporation tax purposes. Such gains and losses will generally be computed in a manner which reflects the treatment in the holder's statutory accounts.

These provisions generally apply to companies which are resident in the United Kingdom or which are carrying on a trade in the United Kingdom through a branch or agency to which the Stock is attributable. However, they do not apply to authorised unit trusts. Companies affected by the above rules on loan relationships will be outside the scope of the rules set out in paragraph 3(a) and (b) above.

¹ Individual taxpayers who are not (and who do not as a result of receiving the interest become) higher rate taxpayers will not be required to pay any additional tax on the interest.

GENERAL INFORMATION

1. The Inland Revenue has approved the Company as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act, 1988 ("ICTA") in respect of the financial year of the Company ended 31 October 1996. The Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. The Company intends that its income will consist wholly or mainly of eligible income as defined in Section 842 of ICTA.
2. Under a placing agreement dated 29 April 1997 between the Company and NWCM (the "Placing Agreement"), NWCM has agreed, subject, *inter alia*, to the admission of the Stock to the Official List by the London Stock Exchange by no later than 13 May 1997, to subscribe or procure subscribers for the Stock. The Placing Agreement contains amongst other things representations, warranties and undertakings given by the Company and indemnities given by the Company to NWCM. The Placing Agreement provides for the payment of certain commissions to NWCM and entitles NWCM to terminate it in certain circumstances prior to payment for the Stock being made to the Company.
3. Certificates in respect of the Stock are expected to be despatched by post on or before 6 June 1997 at the risk of the persons entitled thereto, after which the Stock will be a registered security. No temporary documents of title will be issued.
4. Under (i) a management agreement dated 27 June and 13 July 1995 between the Company and Dunedin Fund Managers Limited ("Dunedin"), as amended and supplemented pursuant to a supplementary agreement between the Company and Dunedin dated 15 February 1996 (the "Management Agreement"), and assigned to Edinburgh Fund Managers plc (the "Manager") by assignment dated 22 October 1996 and (ii) a secretarial and administrative agreement between the Company and Dunedin dated 27 June and 13 July 1995 (the "Secretarial and Administrative Agreement") and assigned to the Manager by assignment dated 22 October 1996, investment management, secretarial, and administrative services are provided to the Company. The Management Agreement provides for payment to the Manager of the greater of (i) a monthly fee of $\frac{1}{4}\%$ of 0.4% of the gross assets of the Company (excluding any investments in investment trusts or other investment funds managed or advised by the Manager or heritable property owned by the Company) and (ii) $\frac{1}{4}\%$ of 0.4% of £42,125,182. 75% of the annual management fee is charged to capital. In addition, under the Secretarial and Administrative Agreement, the Manager receives an annual fee of £50,000 in respect of services to the Company. The Management Agreement is terminable on two years' notice in writing from either party and the Secretarial and Administrative Agreement is terminable on three years' notice in writing from either party.
5. The registrar for the Stock is Bank of Scotland, Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL. For so long as any Stock remains outstanding the Company shall maintain a registrar in the United Kingdom.
6. The auditors of the Company are KPMG Audit Plc, Chartered Accountants and Registered Auditor, of Royal Exchange, Dundee DD1 1DZ. Prior to their appointment on 21 January 1997, the Company's auditors were KPMG, who audited the annual accounts of the Company for the financial year of the Company ended 31 October 1996 and prior to that the Company's auditors were Ernst & Young for the financial years ended 31 October 1995 and 31 October 1994. All such accounts received unqualified audit reports.
7. There has been no significant change in the trading or financial position, and no material adverse change in the financial position or prospects, of the Company since 31 October 1996 (the date to which the most recent published annual accounts of the Company were made up).
8. There are no legal or arbitration proceedings, actual, pending or threatened, involving the Company which may have, or have had during the period of 12 months prior to the date of this document, a significant effect on the financial position of the Company.
9. A floating charge is not recognised by many foreign jurisdictions and accordingly assets in foreign jurisdictions may not be protected against claims by other creditors. As at 31 March 1997 approximately 100 per cent. of the value of the Company's portfolio was represented by investments in the United Kingdom. Particulars of the Floating Charge will be registered with the Registrar of Companies in Scotland.
10. The Trustee is The Law Debenture Trust Corporation p.l.c. of Princes House, 95 Gresham Street, London EC2V 7LY.
11. It is expected that listing of the Stock will be granted on 2 May 1997 (subject only to its allotment) and that official dealings will commence on 7 May 1997 for CREST seven business days rolling settlement.

12. Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Edinburgh Fund Managers plc at Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD up to and including 13 May 1997:
- (a) the Memorandum and Articles of Association of the Company;
 - (b) the annual report and accounts of the Company for the years ended 31 October 1995 and 1996;
 - (c) the Management Agreement and the Secretarial and Administrative Agreement;
 - (d) the Placing Agreement; and
 - (e) a draft of the Trust Deed (subject to modification) to constitute and secure the Stock and, following its execution, the Trust Deed in final form.

REGISTERED AND HEAD OFFICE OF THE COMPANY

Belsize House
West Ferry
Dundee
DD5 1NF

REGISTRAR

Bank of Scotland Registrar Services
Apex House
9 Haddington Place
Edinburgh
EH7 4AL

AUDITORS OF THE COMPANY

KPMG Audit Plc
Royal Exchange
Dundee DD1 1DZ

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Princes House
95 Gresham Street
London EC2V 7LY

LEGAL ADVISERS

To the Company
Shepherd & Wedderburn WS
Saltire Court
20 Castle Terrace
Edinburgh EH1 2ET

To NWCM and the Trustee
Clifford Chance
200 Aldersgate Street
London EC1A 4JJ

LISTING AGENT

NatWest Capital Markets Limited
135 Bishopsgate
London EC2M 3UR