

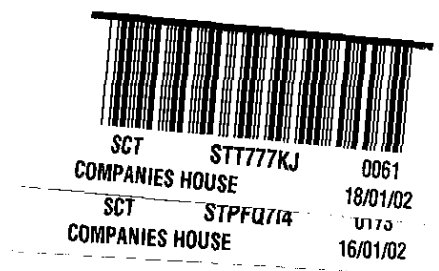
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2001

Dunedin Smaller Companies Investment Trust plc

Annual Report and Accounts 31 October 2001

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The trust aims to attract long term retail investors and institutional holders wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse trust which has performed strongly over the long term.

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 Companies).
Benchmark	FTSE Small Cap Index (excluding Investment Companies)
Investment manager	Edinburgh Fund Managers plc
Equity shareholders' funds	£80.2 million at 31 October 2001
Market capitalisation	£65.3 million at 31 October 2001
Capital structure	16,700,000 ordinary shares of 25p each
Management fee	The basic management fee is 0.4% per annum of adjusted gross assets. There is also a performance-related management fee calculated at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1.0% by which the company's net asset value performance outperforms the capital performance of the benchmark index over the previous 12 month period.
PEP/ISA status	The company's shares are eligible for existing general PEPs, PEP transfers and Individual Savings Accounts (ISAs).
AITC	The company is a member of The Association of Investment Trust Companies.

Financial Summary

	2001	At 31 October 2000	% change
Performance			
Total assets less current liabilities (£'000)	95,040	127,508	(25.5)
Equity shareholders' funds (£'000)	80,231	112,708	(28.8)
Capital return			
Net asset value per share	479.28p	673.71p	(28.8)
FTSE Small Cap Index (ex investment companies)	2,298.00	3,238.71	(29.0)
Share price	391.00p	520.00p	(24.8)
Total return (capital return plus income re-invested)			
Net asset value	—	—	(27.4)
FTSE Small Cap Index (ex investment companies)	—	—	(27.2)
Share price	—	—	(22.9)
Total dividend for year	12.90p	12.90p	—
Revenue return per share	13.43p	14.97p	(10.3)
Net asset value per share adjusted for borrowings valued at market value	456.83p	651.47p	(29.9)
Discount (difference between share price and net asset value)			
– where borrowings are deducted at par value	(18.42%)	(22.82%)	
– where borrowings are deducted at market value	(14.41%)	(20.18%)	
Gearing (ratio of borrowings to shareholders' funds)			
Actual gearing ratio	3.71%	9.49%	
Maximum potential gearing ratio	18.74%	13.33%	
Expense ratio			
– as % of average shareholders' funds	1.49%	0.98%	
Year's Highs/Lows			
	High	Low	
Net asset value	695.36p	440.00p	
Share price	560.50p	315.50p	
Discount	(16.46%)	(29.04%)	

Smaller companies have been affected by the sharp slowdown in growth in the major economies. Although the UK economy fared relatively well, investors' appetite for risk was reduced and this was reflected in smaller companies underperforming. The net asset value per share of the trust fell by 28.8% compared to a fall in the FTSE Small Cap Index (excluding investment companies) of 29.0%. This outperformance of the benchmark maintains the good record of the fund, representing the fourth consecutive year of exceeding the benchmark.

The share price fell from 520.0p to 391.0p, a decrease of 24.8%. It is encouraging that the discount to net asset value has narrowed during the year which reflects the consistent performance of the trust and the ongoing marketing effort.

Change in manager

During the year Andrew Paisley replaced Andy Bamford as manager of the trust. Andrew had been Andy's deputy for two years and runs the trust with the same investment philosophy and similar style. The handover in responsibilities went smoothly and the performance maintained.

Background

The period under review has been very difficult for investors in smaller company shares. The unwinding of the technology overspend in recent years continued and affected many companies operating in that area. The global economic slowdown impacted all companies, but particularly those in manufacturing where a competitive marketplace put considerable pressure on pricing and hence profits. The service sector held up better due to the continuing strength of the consumer. Unemployment maintained its downward path and this, together with solid wage gains, resulted in consumption holding up. The action by the authorities to reduce interest rates to the lowest level since the 1950s has also underpinned the consumer through lower mortgage rates.

Although your trust had some exposure to the technology sector, the balanced nature of the fund has once again proved its worth. The emphasis on a combination of core quality companies with consistent earnings allied to selected value situations and emerging growth companies will be maintained.

Revenue

The revenue return for the year amounted to 13.43p per share (2000–14.97p) and the board is recommending a final dividend of 8.9p which will be paid on 8 February 2002 to shareholders on the register on 18 January 2002. When combined with the interim dividend of 4.0p the total dividend paid for the year will amount to 12.9p, unchanged from last year.

Share buybacks

Shareholders have given the board authority to purchase the company's shares for cancellation. The company did not repurchase any of its shares in the year ending 31 October 2001. A special resolution *proposing an extension of this facility will be put to shareholders at the Annual General Meeting.*

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 Combined Code. In line with best practice, your board meets regularly with the manager, auditor and other advisers and is in compliance with its corporate governance responsibilities.

Chairman's Statement

Marketing initiatives

The company has supported the AITC's 'its' marketing campaign over the last two years. This has been successful in increasing the awareness and knowledge of investment trusts among investors and advisers. Going forward, the company's support for this marketing campaign will involve an annual contribution of £5,000 compared to £10,000 in the financial year to 31 October 2001.

The board will increase the contribution to the manager's marketing initiative which provides a range of savings schemes through which investors are able to invest in Dunedin Smaller Companies at a low cost and in a convenient manner. More information on these savings products is available on the manager's website, www.edfd.com.

Outlook

There is currently much debate over the likely course of the global economy. Authorities worldwide have been proactive in reducing interest rates and increasing government spending but there is insufficient evidence that this has turned the economic outlook around. The UK economy remains relatively healthy and the likelihood is that corporate profits will make some progress over the next twelve months. Valuations remain attractive and the managers are optimistic about investment opportunities in smaller companies. Progress, however, may be limited until greater confidence is evident for the UK equity market as a whole.

The Earl of Dalhousie

Chairman

18 December 2001

The smaller company sector performed poorly over the year reflecting concern over the economic outlook. That said, the company has built upon its record of good performance in relative terms. This is the fourth consecutive year that the company has exceeded the performance objective. Over the year, the company's net asset value per share fell by 28.8% compared to a fall in the benchmark index of 29.0%.

Market background

The period under review has proven to be difficult for markets generally. During the tail end of 2000 concerns grew over the severity of the economic slowdown in the United States and the impact on the UK economy. Newsflow from the US corporate sector and particularly from technology companies was negative, which adversely impacted valuations of comparative companies in the UK. As a result, investors became increasingly defensive and risk averse during February and March of 2001.

During April and May the small cap market rallied, discounting the belief that the slowdown in the US economy would be short-lived with a recovery early in the second half of 2001. This optimism proved misplaced with pre-close period announcements from US companies, and again in particular from technology companies, indicating that demand continued to weaken and that any recovery in capital expenditure would not be evident until 2002.

Concerns over the impact of the slowdown in the US resulted in UK investors again becoming risk averse, leading to a sharp correction to UK markets in June. Additionally the UK economy began to demonstrate signs of an economic slowdown although there was evidence of a two-speed economy. Domestic sectors of the economy performed well, assisted by low inflation and ongoing reductions in interest rates, although export exposed sectors suffered from the strength of sterling and weak end markets.

Investor confidence was badly impacted in September following the tragic events in New York and Washington. The political and economic risk environment increased materially, resulting in a sharp correction to all markets in the weeks following 11 September. Markets subsequently recovered partially in reaction to the severity of the earlier correction.

Portfolio

The approach to managing the portfolio has not altered over the last four years. By adopting a balanced risk averse approach, the aim is to deliver consistency of performance. The strategy remains to have a spine of blue-chip investments running through the portfolio, augmented by a combination of value investments and emerging growth companies. Quality of stock selection remains paramount with a focus on quality of management, financial strength and cash generation, distinctive competitive advantage and valuation.

Over the year the company has benefited from an overweight position in domestic sectors of the economy and underweight in the software sector. The company has again benefited from takeover activity. Takeovers included Ascot, BPT, Heal's, Novara, Meconic and Time Products.

Disappointing performances were recorded by certain emerging growth companies where growth expectations failed to be met.

Manager's Review

Outlook

The events of 11 September have materially increased the level of political and economic risk with the United States likely to enter into a period of recession. The severity of this recession will depend largely upon the reaction of the US consumer who, until 11 September, had remained remarkably resilient. It remains too early to assess fully this impact. That said, interest rate reductions will provide a medium term stimulus.

Within the UK economy, domestic sectors remain reasonably buoyant with consumer confidence holding up well. UK interest rate reductions should help to maintain this. Inflation remains under control at a low level. Export sensitive sectors remain under pressure due to strong sterling and weak demand in many markets.

The company will continue to be positioned with an above average exposure to growth sectors. Our priority for the next year will be to focus on sound fundamental analysis and identifying the next generation of outstanding emerging growth companies within the smaller companies sector.

Edinburgh Fund Managers plc
18 December 2001

Distribution of Portfolio

at 31 October

	FTSE Small Cap Index (ex ITS) Weighting %	Portfolio Weightings 2001 %	2000 %
Resources			
Mining	0.39	—	—
Oil & gas	1.88	3.56	2.03
	2.27	3.56	2.03
Basic industries			
Chemicals	2.05	0.36	1.37
Construction & building materials	6.19	10.27	7.45
	8.24	10.63	8.82
General industrials			
Aerospace & defence	1.18	2.81	1.95
Electronic & electrical equipment	4.56	2.94	2.93
Engineering & machinery	2.52	4.29	4.80
	8.26	10.04	9.68
Cyclical consumer goods			
Automobiles	1.56	0.32	0.26
Household goods & textiles	0.25	0.29	1.03
	1.81	0.61	1.29
Non cyclical consumer goods			
Beverages	1.03	—	—
Food producers & processors	1.43	1.96	2.26
Health	4.14	5.17	3.98
Packaging	0.97	0.06	0.07
Personal care & household products	0.17	—	—
Pharmaceuticals	3.86	—	—
	11.60	7.19	6.31
Cyclical services			
Distributors	3.35	4.23	5.01
General retailers	6.77	4.57	3.20
Leisure entertainment & hotels	5.03	8.39	3.89
Media & photography	5.09	5.09	11.21
Restaurants pubs & breweries	—	—	2.61
Support services	8.73	9.56	9.78
Transport	3.99	5.29	2.41
	32.96	37.13	38.11
Non cyclical services			
Food & drug retailers	1.14	—	—
Telecommunications services	1.52	—	—
	2.66	—	—
Information technology			
Information technology hardware	4.10	0.42	2.09
Software & computer services	11.94	6.01	16.18
	16.04	6.43	18.27
Financials			
Insurance	2.80	0.93	1.21
Investment companies	—	—	0.03
Real estate	7.85	5.86	5.87
Speciality & other finance	5.51	4.96	4.93
	16.16	11.75	12.04
Total equities	100.00	87.34	96.55
Net current assets	—	12.66	3.45
Total assets less current liabilities	100.00	100.00	100.00

List of Largest Investments

at 31 October 2001

Company	Market Value £000	Sector Classification
Interserve	2,179	Support services
Mowlem (John)	2,135	Construction and building materials
Luminar	1,900	Leisure entertainment and hotels
Azlan Group	1,818	Software and computer services
Alfred McAlpine	1,673	Construction and building materials
Gullane Entertainment	1,630	Media and photography
The Innovation Group	1,583	Software and computer services
Sytner Group	1,577	Distributors
Patientline	1,552	Health
Paladin Resources	1,539	Oil and gas
Ten largest investments	17,586	18.5% of total assets less liabilities
Clydeport	1,523	Transport
Wellington Holdings	1,523	Engineering and machinery
Tibbet & Britten	1,481	Transport
Intermediate Capital Group	1,376	Speciality and other finance
Holidaybreak	1,316	Leisure entertainment and hotels
Alvis	1,303	Aerospace and defence
BTG	1,245	Support services
Ramco Energy	1,213	Oil and gas
Freeport	1,163	Real estate
Pendragon	1,126	Distributors
Twenty largest investments	30,855	32.5% of total assets less liabilities
Compco Holdings	1,089	Real estate
Dobbies Garden Centres	1,089	General retailers
Carpentryright	1,087	General retailers
Vosper Thornycroft	1,084	Aerospace and defence
Dairy Crest	1,073	Food producers and processors
Findel	1,055	General retailers
TBI	1,045	Transport
Health Clinic	1,023	Health
Rutland Trust	1,022	Speciality and other finance
Rotork	1,010	Engineering and machinery
Thirty largest investments	41,432	43.6% of total assets less liabilities
Other investments represented by 88 holdings	41,574	43.7% of total assets less liabilities
Total value of investments	83,006	87.3% of total assets less liabilities
Net current assets	12,034	12.7% of total assets less liabilities
Total assets less current liabilities	95,040	100.0% of total assets less liabilities

Long Term Record

Year ended 31 October	Assets at valuation ⁽¹⁾ £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
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
2000	127,708	15,000	112,708	2,510	673.7	14.97	12.9	520.0
2001	95,231	15,000	80,231	2,243	479.3	13.43	12.9	391.0

⁽¹⁾ Total assets less current liabilities plus borrowings

Investment Changes

	Valuation at 31 October 2000 £000	Net purchases (sales) £000	Appreciation (depreciation) £000	Valuation at 31 October 2001 £000
United Kingdom	123,058	(9,185)	(31,126)	82,747
Overseas	129	(181)	311	259
Total investments	123,187	(9,366)	(30,815)	83,006

Comparison of Market Capitalisation

at 31 October 2001

Equity market capitalisation £m	Dunedin Smaller Companies Weighting %	FTSE Small Cap Index (excl investment companies) Weighting %
0-100	27.5	24.8
100-200	32.8	47.2
200-300	12.8	28.0
300-400	9.1	—
400-500	10.4	—
500+	7.4	—
Total	100.0	100.0

Corporate Information

Manager and Secretary and Registered Office

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone: 0131-313 1000
Website: www.edfd.com
Regulated by the FSA

Registrar

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Website: www.shareview.co.uk
Telephone: 0870-601 5366

Banker

Bank of New York

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Company Broker

Cazenove & Co. Ltd

Company Registration Number

SC 14692

Board of Directors

The Earl of Dalhousie

Chairman

The Earl of Dalhousie (53), appointed on 1 November 1993, is a founder of Enskilda Securities and was a director of Capel-Cure Myers Capital Management. He is chairman of Jamestown Investments.

R M Entwistle

Director

R M Entwistle (57), appointed on 18 December 1998, is managing director of Adam & Company and is a fellow of the Chartered Institute of Bankers.

the board

M G N Walker

Director

M G N Walker CBE (68), appointed on 24 March 1982, is chairman of Ivory & Sime UK Smaller Companies Trust. He was a director of Sidlaw Group and of Scottish Hydro Electric.

N M Yarrow

Director

N M Yarrow CA (41), appointed on 21 May 1998, is a director of Northern Venture Managers which is a subsidiary of Edinburgh Fund Managers.

All directors are members of the Audit and Management Engagement Committee

Business and status

The company carries on business as an investment trust. The company has received requisite approval from the Inland Revenue for accounting periods up to and including 31 October 2000.

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 the 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.

Share capital

The company under its existing authority may, depending on circumstances, buy back 2,503,330 ordinary shares prior to the annual general meeting. The principal purpose of such purchases is to address any imbalance between the supply and demand for the company's ordinary shares and thereby reduce the discount at which the shares trade in relation to the underlying net asset value. Since the purchase would be made at a price below the net asset value, the net asset value would be enhanced.

Dividends

The directors recommend that a final dividend of 8.9p (2000–8.9p) is paid on 8 February 2002 to shareholders on the register on 18 January 2002. The ex-dividend date is 16 January 2002. The

directors propose that the company's revenue surplus for the year of £89,000 (2000–£352,000) be transferred to the revenue reserve.

Directors

In accordance with the articles of association, Messrs Walker and Entwistle retire 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 2001 and 18 December 2001.

No contract or arrangement subsisted during the period in which any of the directors was materially interested. Mr Yarrow is an executive director of Northern Venture Managers which is a wholly-owned subsidiary of Edinburgh Fund Managers plc, the manager and secretary to the company. No director had a service contract with the company.

	Ordinary 25p shares		Nature of interest
	31.10.01	31.10.00	
The Earl of Dalhousie	4,000	4,000	Beneficial
R M Entwistle	3,000	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

Directors' Report

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.

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 Financial Services Authority Listing Rules).

The board confirms that the company has complied throughout the accounting period with the provisions set out in Section 1 of the Code.

Directors

The Earl of Dalhousie and Messrs Entwistle and Walker are considered by the board to be independent of the company and the manager and free of any material relationship with the manager. Mr Yarrow is a director of Northern Venture Managers which is a wholly-owned subsidiary of Edinburgh Fund Managers plc.

Synopses of the board members appear on page 12 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 when 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 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 16 and 17.

Internal control

The board confirms that as at 31 October 2001 there is an ongoing process for identifying, evaluating and managing the company's significant business and operational risks, that it has been in place for the year ended 31 October 2001 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the board and accords with the internal control guidance for directors on the Combined Code.

The board has overall responsibility for ensuring that there is in place a system of internal control and for reviewing its effectiveness. Any system of internal control can only provide reasonable and not absolute assurance of meeting the internal control objectives. During the year the board has reviewed the effectiveness of the systems.

The manager is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the company and to manage its affairs properly. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the board and the manager and regular reports on controls and compliance

issues are provided to the board. In carrying out its review, the board has had regard to the activities of the manager, the manager's internal audit and compliance function and the external auditors.

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.

Going concern

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Corporate Governance and

Socially Responsible Investment Policy

The company's manager encourages companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investing.

They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in both areas. The manager's ultimate objective however is to deliver superior investment return for their clients.

Accordingly, whilst they will seek to favour companies which pursue best practice in these areas, this must not be to the detriment of the return on the investment portfolio.

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.

Directors' Report

Substantial share interests

At 18 December 2001 the substantial interests in the ordinary share capital which had been notified to the company are shown in Table 2.

Holder	No of ordinary shares	%
Edinburgh Fund Managers Group plc*	3,314,935	19.9
Royal London Asset Management	1,654,002	9.9
Aegon Asset Management UK plc	882,677	5.3
Derbyshire County Council	650,000	3.9
DC Thomson & Company Ltd	580,000	3.5
AXA Sun Life Investment Management	531,582	3.2

Table 2 Substantial share interests

* non-beneficial interest

Annual general meeting – special business

At the annual general meeting of the company to be held on 7 February 2002, the following resolution will be proposed:

- Special resolution 7 will be proposed to authorise the company to make market purchases of its own shares. This authority, if conferred, will only be exercised if to do so would enhance the net asset value and is in the best interests of shareholders generally.

By order of the board,

Edinburgh Fund Managers plc

Secretary

Edinburgh, 18 December 2001



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.

Independent Auditors' Report

Independent auditors' report to the members of Dunedin Smaller Companies Investment Trust PLC

We have audited the financial statements on pages 18 to 28.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 16 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the 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 14 and 15 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

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

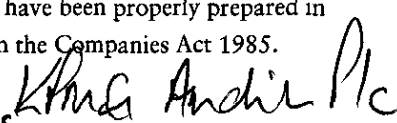
In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 October 2001 and of the return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Edinburgh, 18 December 2001



Statement of Total Return

for the year ended 31 October

	Notes	Revenue £000	2001 Capital £000	Total £000	Revenue £000	2000 Capital £000	Total £000
Realised gains/(losses) on investments	14	—	(131)	(131)	—	23,677	23,677
Unrealised gains/(losses) on investments	15	—	(30,684)	(30,684)	—	5,159	5,159
Income from investments	2	2,571	—	2,571	2,699	—	2,699
Interest receivable on short term deposits		370	—	370	491	—	491
Other income		15	—	15	36	—	36
Investment management fee	3/14	(142)	(802)	(944)	(136)	(569)	(705)
Other administrative expenses	4	(253)	—	(253)	(264)	—	(264)
NET RETURN BEFORE FINANCE COSTS AND TAXATION							
		2,561	(31,617)	(29,056)	2,826	28,267	31,093
Interest payable and similar charges	5	(316)	(949)	(1,265)	(316)	(949)	(1,265)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION							
		2,245	(32,566)	(30,321)	2,510	27,318	29,828
Taxation	6	(2)	—	(2)	—	—	—
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION							
		2,243	(32,566)	(30,323)	2,510	27,318	29,828
Dividends in respect of equity shares	7	(2,154)	—	(2,154)	(2,158)	—	(2,158)
		89	(32,566)	(32,477)	352	27,318	27,670
RETURN PER ORDINARY SHARE							
	8	13.43p	(195.01p)	(181.58p)	14.97p	162.91p	177.88p

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	2001 £000	2000 £000
FIXED ASSETS			
Investments	9	83,006	123,187
CURRENT ASSETS			
Debtors	10	568	472
UK Treasury Bills		9,932	4,929
Cash and short term deposits	20	9,430	2,328
		<u>19,930</u>	<u>7,729</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	11	<u>(7,896)</u>	<u>(3,408)</u>
NET CURRENT ASSETS		<u>12,034</u>	<u>4,321</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>95,040</u>	<u>127,508</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	12	<u>(14,809)</u>	<u>(14,800)</u>
		<u>80,231</u>	<u>112,708</u>
CAPITAL AND RESERVES			
Called up share capital – equity	13	4,175	4,175
Capital reserve – realised	14	91,947	93,829
Capital reserve – unrealised	15	(18,799)	11,885
Capital redemption reserve	16	450	450
Revenue reserve	17	<u>2,458</u>	<u>2,369</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>80,231</u>	<u>112,708</u>
NET ASSET VALUE PER 25P ORDINARY SHARE	22	<u>479.28p</u>	<u>673.71p</u>

The financial statements on pages 18 to 28 were approved by the board on 18 December 2001 and were signed on its behalf by:

Dalhousie
THE EARL OF DALHOUSIE, Director

Cashflow Statement

for the year ended 31 October

	Notes	2001 £000	2000 £000
NET CASH INFLOW			
FROM OPERATING ACTIVITIES	18	1,653	2,609
SERVICING OF FINANCE			
Interest paid		(1,256)	(1,256)
NET CASH OUTFLOW			
FROM SERVICING OF FINANCE		(1,256)	(1,256)
TAXATION			
UK tax paid		—	—
Overseas tax paid		(4)	—
TOTAL TAX PAID		(4)	—
FINANCIAL INVESTMENT			
Purchase of investments		(24,937)	(62,903)
Sale of investments		38,803	63,327
NET CASH INFLOW FROM FINANCIAL INVESTMENT		13,866	424
EQUITY DIVIDENDS PAID		(2,154)	(2,083)
NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING		12,105	(306)
NET CASH (OUTFLOW)/INFLOW FROM MANAGEMENT OF LIQUID RESOURCES	21	(5,003)	29
FINANCING			
Buyback of ordinary shares		—	(471)
INCREASE/(DECREASE) IN CASH	20/21	7,102	(748)



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 equity investments, including taxes deducted at source, 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 between revenue and capital, in line with the board's expectation of returns from the company's investments over the long term in the form of revenue 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 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. The capital element of the investment management fee along with the associated irrecoverable VAT and relevant finance costs are charged to this reserve. Any 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 on all timing differences to the extent that liabilities are likely to arise in the foreseeable future.

2 Income from investments

	2001		2000	
	Franked £000	Unfranked £000	Franked £000	Unfranked £000
Dividends				
Listed: United Kingdom	2,559	—	2,698	—
Unlisted: Overseas	—	12	—	1
	<u>2,559</u>	<u>12</u>	<u>2,698</u>	<u>1</u>
Total investment income	<u>2,571</u>		<u>2,699</u>	

Notes to the Accounts

	2001 £000	2000 £000
3 Investment management fee		
Investment management fee (including irrecoverable VAT)	944	705
Charged against capital reserve – realised	(802)	(569)
	<u>142</u>	<u>136</u>

The management fee paid to Edinburgh Fund Managers plc, a subsidiary of Edinburgh Fund Managers Group plc, is calculated at 0.4% per annum of the gross assets of the company after deducting current liabilities and excluding commonly managed funds (“adjusted gross assets”). The fee is subject to VAT at the appropriate rate.

In addition Edinburgh Fund Managers plc is entitled to a performance-related fee calculated quarterly in arrears, at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1% by which the company’s net asset value performance outperforms the capital performance of the FTSE Small Cap Index (ex investment companies) over the twelve month period. The investment management fee includes the performance related fee earned during the year of £377,000.

The management agreement between the company and Edinburgh Fund Managers plc is terminable by either party on 1 year’s notice.

The management fee is chargeable 75% to capital and 25% to revenue. The performance-related management fee is chargeable wholly to capital.

4 Administrative expenses		
Secretarial fees	56	54
Directors’ fees	43	36
Investment trust initiative	19	19
Registrar’s fees	32	23
‘its’ marketing campaign	10	44
Irrecoverable VAT	21	24
Other expenses	72	64
	<u>253</u>	<u>264</u>

The secretarial fee of £56,000 (2000–£54,000) is paid to Edinburgh Fund Managers plc. A contribution of £19,000 (2000–£19,000) 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 £12,583 (2000–£10,833). The emoluments of the other directors were £10,067 each (2000–£8,333).

Auditor’s remuneration amounted to £6,050 (2000–£5,850). Remuneration paid to the auditors for non-audit services amounted to £1,350 (2000–£1,600).

Notes to the Accounts

	2001 £000	2000 £000
5 Interest payable and similar charges		
8.375% debenture stock interest	1,256	1,256
Amortised debenture stock premium and issue expenses	9	9
	<u>1,265</u>	<u>1,265</u>
Charged against capital reserve – realised	(949)	(949)
	<u>316</u>	<u>316</u>

6 Taxation

Overseas tax	<u>2</u>	<u>—</u>
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There is no overall deferred taxation liability.

7 Dividends

Interim dividend of 4.0p (2000–4.0p) paid 13 July 2001	668	672
Final dividend of 8.9p (2000–8.9p) payable 8 February 2002	1,486	1,486
	<u>2,154</u>	<u>2,158</u>

8 Return per ordinary share

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

	2001	2000
Revenue return	£2,243,000	£2,510,000
Capital return	(£32,566,000)	£27,318,000
Weighted average number of ordinary shares in issue	16,700,000	16,767,945

9 Investments

	Listed in UK £000	Unlisted £000	Total £000
Valuation at 31 October 2000	123,022	165	123,187
Unrealised appreciation at 31 October 2000	<u>11,807</u>	<u>78</u>	<u>11,885</u>
Book cost at 31 October 2000	111,215	87	111,302
Additions at cost	29,610	—	29,610
Disposals at cost	<u>(39,020)</u>	<u>(87)</u>	<u>(39,107)</u>
Book cost at 31 October 2001	101,805	—	101,805
Unrealised depreciation at 31 October 2001	<u>(18,862)</u>	<u>63</u>	<u>(18,799)</u>
Valuation at 31 October 2001	<u>82,943</u>	<u>63</u>	<u>83,006</u>

Notes to the Accounts

	2001 £000	2000 £000
10 Debtors		
Accrued income	310	388
Amounts due from brokers	64	78
Other debtors	194	6
	<u>568</u>	<u>472</u>
11 Creditors: amounts falling due within one year		
Amounts due to brokers	5,629	956
Debenture interest	611	611
Other creditors	170	355
Final dividend	1,486	1,486
	<u>7,896</u>	<u>3,408</u>
12 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	(191)	(200)
	<u>14,809</u>	<u>14,800</u>
<p>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.</p> <p>The market value of the debenture stock as at 31 October 2001 was £18,750,000 (2000-£18,712,500). The effect on the net asset value of deducting the debenture stock at market value rather than at par is disclosed in note 22.</p>		
13 Called up share capital		
Authorised:		
20,800,000 (2000-20,800,000) ordinary shares of 25p each	<u>5,200</u>	<u>5,200</u>
Issued and fully paid:		
16,700,000 (2000-16,700,000) ordinary shares of 25p each	<u>4,175</u>	<u>4,175</u>

Notes to the Accounts

	2001 £000	2000 £000
14 Capital reserve – realised		
Balance at 31 October 2000	93,829	72,141
Realised net (loss)/gain on investments	(131)	23,677
Debenture stock interest	(942)	(942)
Amortised debenture stock premium and issue expenses	(7)	(7)
Management fee	(425)	(410)
Performance fee	(377)	(159)
Cost of ordinary shares repurchased	—	(471)
Balance at 31 October 2001	<u>91,947</u>	<u>93,829</u>
75% of the management fees, loan interest, debenture stock interest, debenture stock premium and issue expenses have been allocated to this capital reserve.		
15 Capital reserve – unrealised		
Balance at 31 October 2000	11,885	6,726
(Decrease)/increase on revaluation of investments	(30,684)	5,159
Balance at 31 October 2001	<u>(18,799)</u>	<u>11,885</u>
16 Capital redemption reserve		
Balance at 31 October 2000	450	425
Transfer from called up share capital arising from the buy back of ordinary shares	—	25
Balance at 31 October 2001	<u>450</u>	<u>450</u>
17 Revenue reserve		
Balance at 31 October 2000	2,369	2,017
Transferred from revenue account	89	352
Balance at 31 October 2001	<u>2,458</u>	<u>2,369</u>

Notes to the Accounts

2001
£000

2000
£000

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

Revenue before interest and taxation	2,561	2,826
Decrease in accrued income	78	59
Decrease in other debtors	1	2
(Decrease)/increase in creditors	(185)	291
Management fee charged to capital	(425)	(410)
Performance fee charged to capital	(377)	(159)
	<u>1,653</u>	<u>2,609</u>

19 Analysis of changes in financing during the year

	2001		2000	
	Equity share capital £000	Debentures & loans £000	Equity share capital £000	Debentures & loans £000
Balance at 31 October 2000	4,175	14,800	4,200	14,791
Share buybacks	—	—	(25)	—
Amortisation of premium and expenses of issue	—	9	—	9
Balance at 31 October 2001	<u>4,175</u>	<u>14,809</u>	<u>4,175</u>	<u>14,800</u>

2001
£000

2000
£000

20 Analysis of changes in cash during the year

Balance at 31 October 2000	2,328	3,076
Net cash inflow/(outflow)	7,102	(748)
Balance at 31 October 2001	<u>9,430</u>	<u>2,328</u>

21 Analysis of changes in net debt

	Balance at 31 October 2000 £000	Cash flows £000	Amortisation of issue expenses and premium £000	Balance at 31 October 2001 £000
Cash and short term deposits	2,328	7,102	—	9,430
UK Treasury Bills	4,929	5,003	—	9,932
Debt due after more than one year	(14,800)	—	(9)	(14,809)
Net debt	<u>(7,543)</u>	<u>12,105</u>	<u>(9)</u>	<u>4,553</u>

22 Net asset value per share

Total shareholders' funds have been calculated in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'. The analysis of total shareholders' funds on the face of the balance sheet does not reflect the rights, under the articles of association, of the ordinary shareholders on a return of assets. These rights are reflected in the net asset value and the net asset value per share attributable to ordinary shareholders at the year end, adjusted to reflect the deduction of the debenture stock at par. A reconciliation between the two sets of figures is given below:-

	2001	2000
Total shareholders' funds	£80,231,000	£112,708,000
Adjusted net assets	£80,040,000	£112,508,000
Number of equity shares in issue at year end	16,700,000	16,700,000
 Total shareholders' funds per share	 480.42p	 674.90p
Less: Unamortised debenture stock premium and issue expenses	(1.14p)	(1.19p)
Adjusted net asset value per share	<u>479.28p</u>	<u>673.71p</u>
	2001	2000
	£000	£000

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

Adjusted net assets at 31 October 2000	112,508	85,300
Total recognised capital (losses)/gains for the year	(32,566)	27,318
Revenue return for the year	2,243	2,510
Dividends appropriated in the year	(2,154)	(2,158)
Movement in unamortised debenture stock premium and issue expenses	9	9
Share buybacks	—	(471)
Adjusted net assets at 31 October 2001	<u>80,040</u>	<u>112,508</u>

The net asset value adjusted to include the debenture stocks at market value rather than at par is 456.83p (2000—651.47p)

23 Reconciliation of movement in equity shareholders' funds

Equity shareholders' funds at 31 October 2000	112,708	85,509
Total recognised capital (losses)/gains for the year	(32,566)	27,318
Net revenue for the year	89	352
Share buybacks	—	(471)
Equity shareholders' funds at 31 October 2001	<u>80,231</u>	<u>112,708</u>

Notes to the Accounts

24 Commitments and contingencies

There are placing commitments of nil (2000–£1,385,000) at 31 October 2001.

25 Risk management, financial assets and liabilities

Risk management

The company's major risks 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 12.

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 bills with a market value of £9,932,000 (2000–£4,929,000) which mature on 10 December 2001 and 21 January 2002. Cash and short term deposits are held in floating rate accounts.

Notice of Meeting

Notice is hereby given that the seventy fourth annual general meeting of Dunedin Smaller Companies Investment Trust PLC will be held in Donaldson House, 97 Haymarket Terrace, Edinburgh on Thursday 7 February 2002 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 2001;
2. To declare a final dividend of 8.9p on the ordinary shares;
3. To re-elect Mr M G N Walker as a director of the company;
4. To re-elect Mr R M Entwistle as a director of the company;
5. To re-appoint KPMG Audit Plc as auditor of the company;
6. To authorise the directors to fix the remuneration of the auditors for the year to 31 October 2002.

SPECIAL BUSINESS

To consider and, if thought fit, to pass Resolution 7 as a special resolution.

Special Resolution

7. That the company be and it is hereby authorised in accordance with section 166 of the Act to make purchases (within the meaning of section 163 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 at the conclusion of the annual general meeting of the company to be held in 2003 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.

By order of the board



Edinburgh Fund Managers plc

Secretary, 4 January 2002

Registered office: Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD

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, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ 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.

2. 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 Direction' 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 and interim dividend paid.

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

EDINBURGH FUND MANAGERS

Edinburgh Fund Managers plc was formally established in 1969 and has grown steadily since that time now with offices in Edinburgh, Dundee, London, Newcastle, Canada and the USA. Today Edinburgh Fund Managers is one of the largest managers of investment trusts in the UK with over £3 billion of funds under management as at 31 October 2001. Total assets managed by the group at the same date were over £6.7 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 a 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 each of the tax years up to 2005/2006 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 Investment Trust Pension offers the choice of a Personal Pension Plan or a Free Standing Additional Voluntary Contributions Plan. Contributions can be made

Information for Investors

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 0906-843 2385. 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 (www.edfd.com) and the TrustNet website (www.trustnet.co.uk).

Lloyds TSB Registrars also have a website (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
PO Box 28448
Finance House
Orchard Brae
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Telephone: 0870-601 5366
Text Phone: 0870-600 3950
Website: www.shareview.co.uk

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)
PO Box 28448
Finance House
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Individual Savings Account/Personal Equity Plan Administrator

Cogent Investment Operations Limited
PEP/ISA Administrator
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Pension Administrator

Edinburgh Pension Centre
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