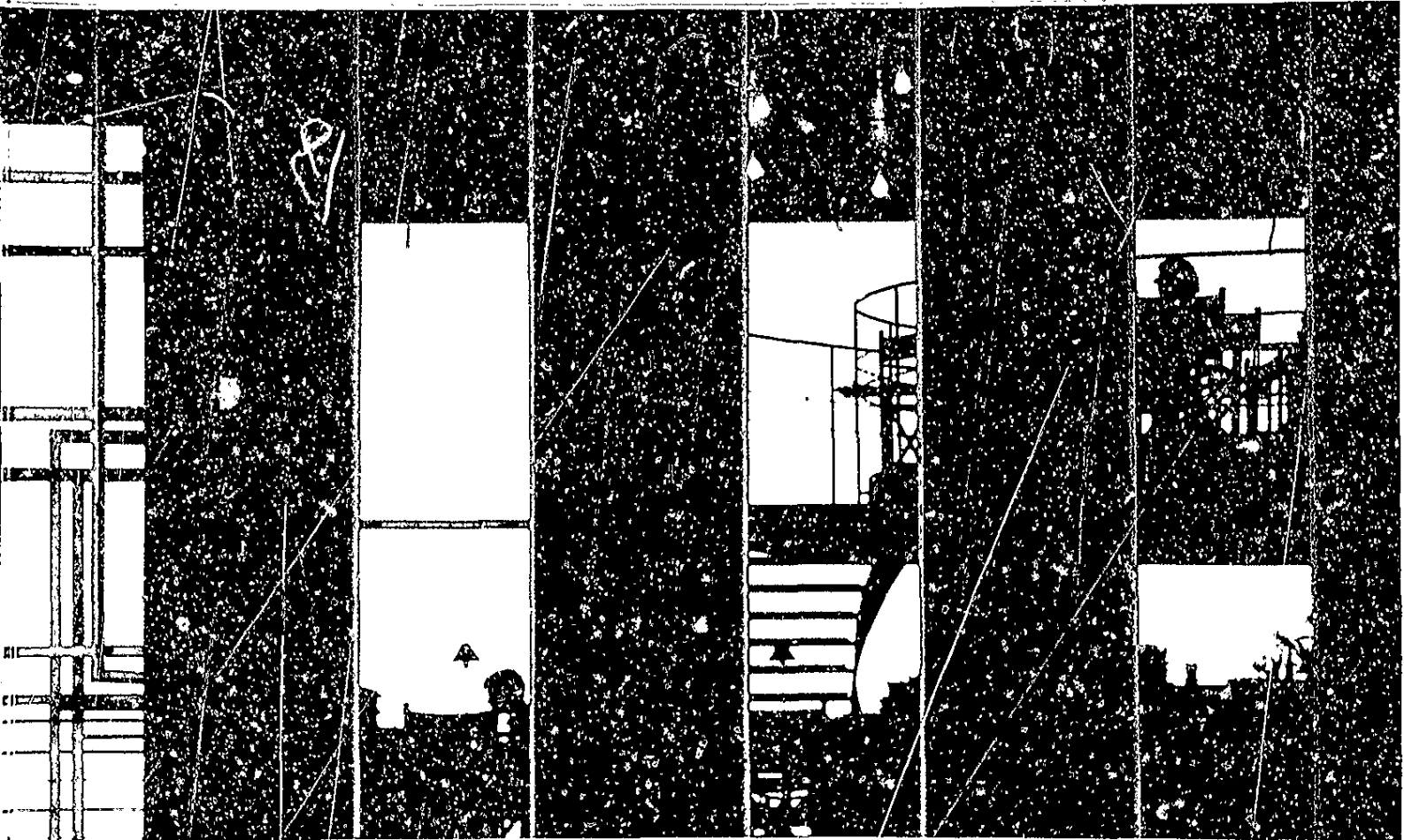


ANNUAL REPORT 1994

DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC



DUNEDIN

ANNUAL REPORT 1994
DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

Contents

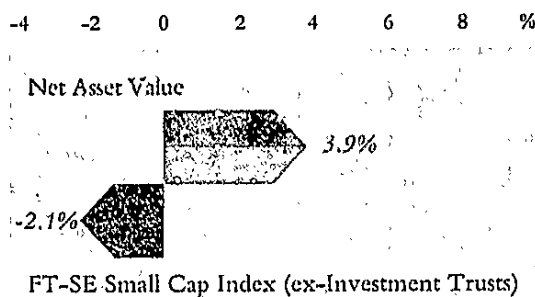
- 1 Financial Highlights
- 2 Chairman and Long Term Review
- 3 Chairman's Statement
- 4 Directors' Report
- 5 Financial Statements (Audited) and Summary of Financial Ratios
- 6 Management Report
- 7 Analysis of Performance
- 8 Long Term Record, Comparison of Performance with the Market and the Investment Objective
- 9 Details of Holdings
- 10 Notes of Meetings of the Company and the Board
- 11 Board of Directors
- 12 Directors' Remuneration
- 13 Statement of Directors' Responsibility



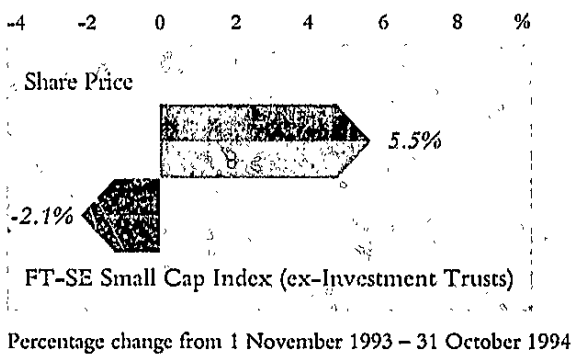
FINANCIAL HIGHLIGHTS

SC14692

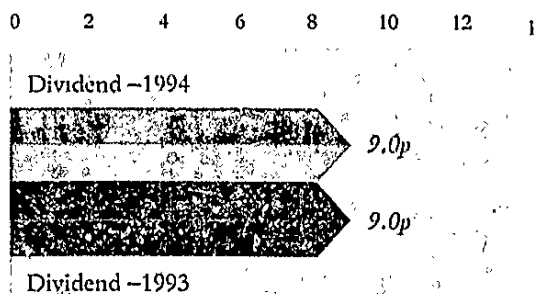
Net asset value increased
by 3.9% to 315.1p



Share price increased
by 5.5% to 306.0p



Annual dividend
maintained at 9.0p



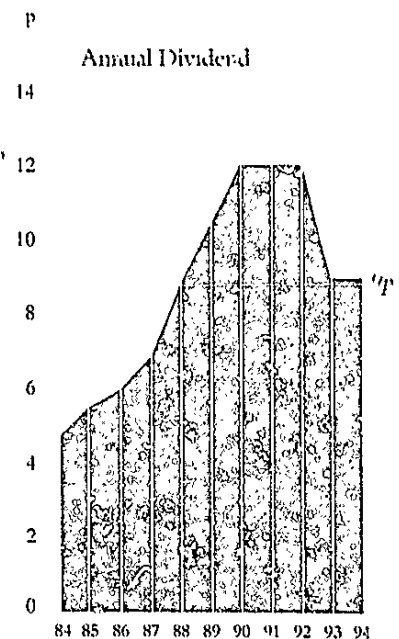
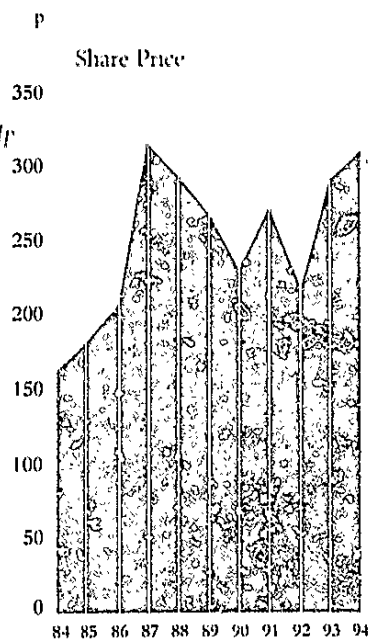
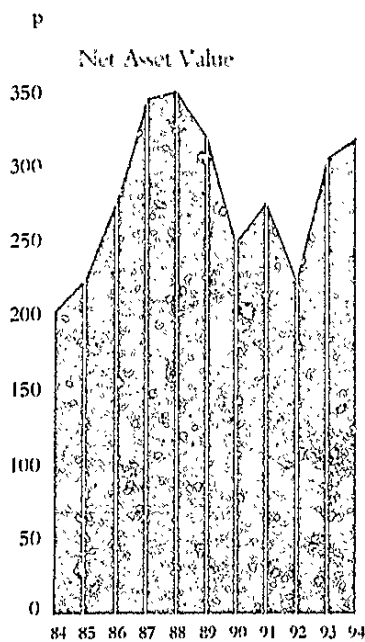
C




OBJECTIVE

The achievement of 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).

LONG TERM RECORD



CHAIRMAN'S STATEMENT



I am pleased to report that the company, under its new name and investing in a wider universe of stocks, has seen further growth in value this year.

Last year I informed you of our decision to increase the size range of companies in which the company invests in order to give the managers greater investment opportunities.

The additional flexibility proved to be beneficial and at the end of the financial year the net assets had risen in value by 3.9% whereas the index of small company shares against which we compare ourselves had fallen by 2.1%. This outperformance of the benchmark index was achieved mainly through good stock selection by the managers but was helped also by the introduction of £5 million of short term debt in order to increase the capital return to shareholders.

Under the company's present accounting policy the revenue account bears the interest cost of borrowings, and changing levels of debt can lead therefore to short term fluctuations in the amount available to pay dividends. The company has a revenue reserve available to smooth out such an effect, and it is your board's view that, within our overall strategy, the emphasis should be on the achievement of asset growth for shareholders with the expectation that higher income will follow. Your board have therefore decided to change marginally the objectives of the company to reflect this emphasis.

Accordingly it is your board's intention to continue to rely on short term borrowings in order to 'gear up' the rate of asset growth at

times when we are confident of the outlook for small company investment. At 31 October approximately 10% of the company's assets were financed in this way. When the outlook does not justify such borrowing we have the flexibility to reduce or repay the debt.

Revenue in the year was greatly helped by underwriting income arising from the unusually large number of small companies coming to the stock market, as well as by strong dividend growth from our investments, but also bore the cost of the borrowings. We are recommending an unchanged dividend which is almost covered by net earnings.

The somewhat indiscriminate fall in share prices in recent months has eroded much of the valuation premium normal for small companies at the current stage of the economic cycle, and we would expect them to perform in price better than large companies as their superior profit growth emerges. Equities appear to offer good value, but the market is somewhat nervous at present, and further strength may have to await clarification of the outlook for interest rates.

Dividend income from the portfolio is rising satisfactorily, but I do not yet know to what extent we will want to gear up to help asset growth in the current year. It is therefore too early to predict whether we will be able to recommend a resumption of dividend growth from our current base level of 9 pence per share.

W D Marr, Chairman
13 December 1994

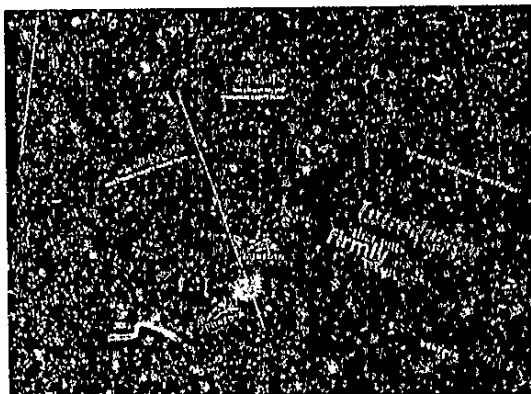
INVESTOR INFORMATION

It is the business of investment trusts, advised by their managers, to invest in the shares of other companies. The purchase of investment trust shares is therefore an ideal way to acquire a spread of investments, managed at low cost, to provide capital and/or income growth.

£1,000 invested in **Dunedin Smaller Companies Investment Trust** on 1 November 1979 would, after 15 years with dividends reinvested, have been worth £9,437 by 1 November 1994. This compares with £3,412 for the highest rate available from a building society and £2,428 for the UK Retail Price Index.

Source: Micropal 1 November 1979 – 1 November 1994. Basis: Net income reinvested.

Shares: mid-market price.



HOW DO YOU INVEST?

Ordinary shares – Shares can be bought or sold directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, investments in the trust can be made directly through Dunedin using any of the following options.

Dunedin Investment Trusts Share Plan – Originally introduced in 1987, the Plan has attracted around 800 investors to the trust. You can either make **regular monthly payments** (minimum £30 per month) or invest an occasional **lump sum** (minimum £250 initially and £30 thereafter). If you already own shares you can also join the Share Plan and have your dividends reinvested. There is **no charge** for buying, selling or holding shares through the Plan, other than Government Stamp Duty of 0.5%, which is currently payable on all share purchases.

Dunedin Investment Trusts Personal Equity Plan – Launched in 1990 the Dunedin PEP has now attracted over 1,700 investors to the trust. The advantage of the PEP is that the income and capital growth from all investments held within it are free from tax. You can invest up to £6,000 in the trust through a PEP in the current tax year. The Dunedin PEP is considerably cheaper than most other PEPs, with a set up cost of £30 + VAT and an annual charge of 0.5% + VAT. There is **no charge** for buying or selling shares in the trust other than Government Stamp Duty of 0.5% on purchases.

Dunedin Investment Trusts Share Exchange Scheme – This provides a convenient method for you to sell an existing shareholding in any UK quoted company with the proceeds being reinvested in the trust through either the Share Plan or the PEP.

Dunedin Investment Trusts Pension –

It is now possible to incorporate the trust into your retirement planning, through the recently launched Dunedin Pension. This low cost and flexible pension offers you a straightforward, investment trust based alternative to traditional options. The Dunedin Pension offers a Personal Pension Plan and a Free Standing Additional Voluntary Contribution Plan. It has already received a lot of favourable comment and media attention and is proving popular with investors. Contributions can be made monthly, yearly or by lump sums, at very low cost.

Please remember that past performance is not necessarily a guide to the future. The price of shares and the income from them can fall as well as rise and you may not get back the amount invested.

Keeping you informed – The trust's share price appears under the heading 'Investment Trusts' in the Financial Times, The Daily Telegraph, The Times, The Guardian, The Independent, The Scotsman and The Herald. You can also obtain the latest share price by phoning FT Cityline on 0336 432385.

This year's Annual General Meeting will be held at Dunedin House on Tuesday 24 January 1995 at 2.00 pm.

For information on the Share Plan, PEP, Pension and Share Exchange Scheme please contact:

Investor Relations Department
Dunedin Fund Managers Ltd
Dunedin House
25 Ravelston Terrace
Edinburgh EH4 3EX
Telephone: 0131-315 2500
or **FREE** on 0800 838993 (24 hours)

FINANCIAL CALENDAR

Announcements, ordinary share dividend payments and the issue of the annual and interim reports may normally be expected in the months shown below:

January – Annual General Meeting and final dividend paid

June – Interim dividend announced and interim report for half year to 30 April published

July – Interim dividend paid

December – Preliminary figures and recommended final dividend for year announced and annual report and accounts published



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

ANALYSIS OF SHAREHOLDERS

No of shares	No of holders	% of shares
1 – 5,000	3,577	21.2
5,001 – 25,000	165	9.6
Over 25,000	47	69.2
	<u>3,789</u>	<u>100.0</u>

Type of shareholder

UK individuals (including Share Plan and PEP)	3,675	54.1
Insurance companies and pension funds	40	28.4
Banks and nominees	4	1.0
Local authorities	6	1.1
Other institutions	64	15.4
	<u>3,789</u>	<u>100.0</u>

MANAGER'S REVIEW



Neil Pirie is the fund manager of your company

The company has beaten the capital performance benchmark which was introduced for the year under review. The net asset value per share increased by 3.9% compared with a fall of 2.1% in the FT-SE Small Cap Index (excluding Investment Trusts). Over the same period small companies performed in line with the broader market where the FT-SE-A All-Share Index fell by 1.9%.

The financial year started with equities advancing strongly amid optimism about the economic outlook. However increasing concerns about inflation and a rise in US interest rates in February have resulted in considerable weakness and volatility in the UK equity market in 1994. Smaller companies were not immune and the sector was also hampered by the demands on institutional cash flows from equity fund-raising and the large number of new issues. As a result, a large part of the gain reported in the interim results was eroded in the second half although net assets continued to outperform the benchmark.

The capital performance of the company benefited from the increase in the upper limit of market capitalisation for eligible investments which was outlined in last year's annual report and the increased flexibility which this provided. Exposure to companies at the very small end of the market capitalisation scale was

reduced further during the course of the year with the disposal of holdings such as Thomas Jourdan and Northumbrian Fine Foods, although the company retains a significant weighting in this part of the sector. The table on page nine provides an analysis of the company's holdings by market capitalisation and comparative figures for the FT-SE Small Cap Index (excluding Investment Trusts).

Stock selection was the key to the good capital performance with the share prices of a number of holdings rising substantially during the period as the benefits of internal actions combined with economic recovery to produce strong profits growth. Of the larger holdings in the portfolio Greggs, Wolstenholme Rink and Spandex rose by approximately 50%, while Bett Brothers, Swallowfield and Austin Reed rose even more strongly. The overweighting in the general manufacturing sector was beneficial given the good performance of cyclical stocks particularly earlier in the year, while being underweight in the weak financial sector was another positive contributor.

Inevitably a number of companies found trading conditions more difficult and profit warnings were again a feature of the small company sector. The holdings in Burnfield, Scantronic, Southern Business Group and Everest Foods, which for various reasons failed to meet profit expectations, were sold during the period.

The stock selection process, while focussing on value, also emphasises the quality of the business, management and the earnings potential of individual companies with sector considerations of secondary importance. Major additions to the portfolio during the year covered a range of industries including Wellman and Renold in the engineering sector, Kenwood and Denby in the consumer sector, Boxmore in the packaging sector and My Kinda Town in the leisure sector.

One of the major attractions of investment trusts is their ability to borrow when market conditions are favourable. Reflecting the manager's confidence in the outlook for small companies, an element of capital gearing was introduced during the year. The company borrowed £5 million on a short-term basis which was invested in equities and at the year-end total investments represented 110% of shareholders' funds.

The improved profitability of small companies was reflected in a higher level of dividends received during the year. Earnings per share rose by only 2.8% to 8.96p as a result of the interest charge on the new borrowings. The sharp fall in the interest received due to the reduced level of cash balances was largely offset by a substantial increase in underwriting commission which resulted from the exceptionally buoyant market for equity issues. This level of underwriting commission is dependent on market conditions and may not be sustainable going forward.

The new issue market has recently received a considerable amount of adverse publicity as a result of the sharp falls in share prices of a number of newly listed companies. However one of the major functions of the equity market is to provide an opportunity for small companies to finance growth and expansion. The company has participated successfully in the new issue market during the year. Companies are rigorously appraised and those with short track records or which are loss-making are avoided. Holdings have been retained in a number of new issues including domnick hunter, Partco and Inspec which we believe to have above average long term prospects.

Rights issues continue to be a feature of the market as small companies look to expand both organically and by acquisition. During the year the company supported several issues including

those from Richardson Westgarth, Matthew Clark and Acal. Takeover activity remained at a low level although In Shops was subject to an agreed takeover bid from Birkby in which the company now has a holding.

The company has a long-standing investment in Robert Fleming, which at 31 October 1994 represented 5.6% of shareholders' funds. The disproportionate size of the holding reflects its outstanding performance in recent years. In the financial year under review however it has suffered a derating along with other merchant banks, due to the more difficult environment in which it is operating. We believe the shares are valued on a conservative basis and continue to offer the potential for significant capital appreciation and dividend growth.

The recent weakness in the market is at odds with the fundamentals for small companies. The improving economic background has been reflected in earnings and dividend growth for the sector which has been well ahead of the broader market. The optimistic tone of company statements suggests that this is set to continue with the main caveat being the possible impact on margins of raw material price increases. Over the past twelve months small companies have marginally underperformed large companies despite the superior earnings performance and now trade on similar valuation levels. Given the ability of smaller companies to generate faster earnings growth than large companies during periods of economic prosperity the small company sector is expected to resume its long term trend of outperformance.

ANALYSIS OF VALUATION

AT 31 OCTOBER 1994	1994	1993
	Total	Total
	£000	£000
Equities and convertibles		
Mineral extraction		
Extractive industries	55	138
Oil, exploration and production	—	405
	55	543
General manufacturing		
Building and construction	2,066	1,859
Building materials and merchants	2,067	1,370
Chemicals	3,209	2,211
Diversified industrials	—	178
Electronic and electrical equipment	2,996	2,876
Engineering	10,394	10,606
Engineering, vehicles	1,631	1,040
Printing, paper and packaging	1,801	1,042
Textiles and apparel	4,808	2,891
	28,972	24,073
Consumer goods		
Spirits, wines and ciders	1,820	906
Food manufacturers	2,234	2,590
Household goods	3,341	1,890
Pharmaceuticals	760	858
	8,205	6,244
Services		
Distributors	4,397	3,172
Leisure and hotels	969	1,688
Media	2,035	1,453
Retailers, food	1,270	903
Retailers, general	1,176	1,033
Support services	—	488
Transport	1,309	968
Other services and business	1,564	1,000
	12,720	10,705
Utilities		
Water	—	434
	—	434
Financials		
Merchant banks	2,959	3,466
Other financial	2,492	2,188
Property	2,959	2,401
	8,410	8,055
Total equities and convertibles	58,362	50,054
Fixed interest	—	1
Short term borrowings	(5,000)	—
Other net current (liabilities)/assets	(429)	1,333
Preference stock	—	(425)
Ordinary shareholders' funds	52,933	50,963
Convertibles amount to £1,105,000 (1993-£1,027,000)		
Overseas investments amount to £475,000 (1993-£559,000)		

LONG TERM RECORD

Year ended	Assets at valuation	Preference	Ordinary	Revenue	Per Ordinary Share			Share Price
		stock and other borrowings	shareholders' funds	available for ordinary dividends	Net asset value	Earnings	Dividend	
31 Oct	£000	£000	£000	£000	p	p	p	p
1984	34,508	425	34,083	805	202.9	4.79	4.70	161
1985	38,243	425	37,818	944	225.1	5.62	5.40	183
1986	46,877	425	46,452	1,023	276.5	6.09	6.00	204
1987	58,317	425	57,892	1,176	344.6	7.00	6.80	313
1988	59,261	425	58,836	1,516	350.2	9.02	8.80	291
1989	54,150	425	53,725	1,797	319.8	10.70	10.50	265
1990	42,413	425	41,988	2,030	249.9	12.08	12.00	227
1991	46,916	425	46,491	1,902	276.7	11.32	12.00	273
1992	37,518	425	37,093	1,821	220.8	10.84	12.00	219
1993	51,388	425	50,963	1,465	303.4	8.72	9.00	290
1994	57,933	5,000	52,933	1,506	315.1	8.96	9.00	306

Figures for 1989 and subsequent years reflect the change in accounting policy from including investment income on a receivable basis to an ex-dividend basis.

COMPARISON OF MARKET CAPITALISATION

AT 31 OCTOBER 1994		FTSE Small Cap	
UK quoted companies		Index (ex-Investment	
Equity market capitalisation		Trusts) weighting	
£m	Dunedin Smaller Companies weighting %		%
0 - 25	13.1		1.0
25 - 50	18.2		6.3
50 - 75	31.0		13.9
75 - 100	3.7		12.2
100 - 125	10.7		11.5
125 - 150	12.5		12.4
150 - 175	4.2		13.6
175 - 200	2.7		13.4
200 - 225	1.2		9.5
225 +	2.7		6.2
Total	100.0		100.0

INVESTMENT CHANGES

	Valuation at 31.10.93	Purchases	Sales	Appreciation (depreciation)	Valuation at 31.10.94
	£000	£000	£000	£000	£000
Equities					
UK	49,495	19,796	(13,563)	2,160	57,888
Other areas	560	—	(28)	(58)	474
Total	50,055	19,796	(13,591)	2,102	58,362

LIST OF HOLDINGS

	£000		£000
Robert Fleming*	2,959	EFT	565
Greggs	1,572	Kenwood Appliances	564
Wolstenholme Rink	1,570	Nobo Group	564
Matthew Clark	1,403	Sterling Publishing	552
DFM Holdings*	1,349	Hicking Pentecost	549
Avon Rubber	1,343	Parkside International	540
Watson & Philip	1,270	Manders	539
UDO	1,000	Westbury	538
Carclo Engineering	992	Frederick Cooper	526
Spandex	992	Inspec	496
domnick hunter	975	British Build. & Eng. Appliances	495
Walker Greenbank	945	Bullers	495
Servomex	931	Airsprung Furniture	487
Perry Group	908	Allied London Properties	475
Forth Ports	896	Wyevale Garden Centres	450
Rotork	880	Helical Bar 5.25% Cn Cm	441
Bromsgrove Industries	875	Red Pref 2012	
Peter Black	851	Record Holdings	438
Ricardo	834	GWR Group	420
Metsec	786	Burn Stewart Distillers	417
Epwin	785	My Kinda Town	412
Cala	767	Richardson Westgarth	410
Saville Gordon (J) Group	765	Alexandra Workwear	366
Bett Brothers	761	Midland Independent Newspapers	365
City Centre Restaurants	760	Barry Wehmiller International	358
Grampian Holdings	760	Fife Indmar	354
Acal	757	Prospect Industries	344
Helene	733	Leslie Wise	299
Austin Reed	726	Hemingway Properties	295
Birkby	722	UPF	289
Swallowfield	720	UK Safety	285
JLI	713	City Site Estates 7% Conv Uns	261
Dowding & Mills	699	Ln Stk 2005/6	
HTV	698	Candover 1987 Fund*	260
Renold	694	Frederick Cooper 6.5% Cnv Cum	252
Partco	684	Red Pref	
British Polythene	678	Litho Supplies	234
TGI	673	Filtronic Comtek	219
Wellman	642	Regal Hotels	209
Denby	625	Baris Holdings	208
Bridport-Gundry	624	Quadrant	200
PCT	620	Ferrum	174
Headlam	606	JF Japan Venture 1*	164
Marling Industries	605	Dunedin Berkeley Development*	152
Brent Chemicals	604	Leach International*	84
Boxmore	583	Advanced Computer Comm.*	74
Graham Group	578	Starmin	55
TLG	575		
			<u>58,362</u>

* Unquoted investment

Details in respect of unquoted/unlisted securities market investments included in the top twenty holdings are given on page 11

NOTICE OF MEETING

Notice is hereby given that the sixty-seventh Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at Dunedin House, 25 Ravelston Terrace, Edinburgh on **Tuesday 24 January 1995 at 2.00 pm** for the following purposes:

1. To receive the Report of the Directors and the Accounts for the year to 31 October 1994 and to declare a final dividend on the ordinary shares.
2. To re-elect M G N Walker as a director of the company.
3. To re-appoint Ernst & Young as auditors of the company.
4. To authorise the board to fix the remuneration of the auditors.
5. To transact any other ordinary business of the company.

By order of the board, **Dunedin Fund Managers Limited**, Secretary, 13 December 1994.

Registered office: Dunedin House, 25 Ravelston Terrace, Edinburgh EH4 3EX

Notes

1. Holders of ordinary shares are entitled to attend and vote at the 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 registrars, Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh EH7 4AL not less than 48 hours before the time appointed for the meeting.
2. There are special arrangements for holders of shares through the Dunedin Investment Trusts Share Plan and the Dunedin Investment Trusts Personal Equity Plan. These are explained in the 'Letters of Directions' which such holders will have received with this Report.
3. The following will be available for inspection at the registered office of the company during normal business hours from the date of this notice until the conclusion of the Annual General Meeting:
 - (a) a statement giving details of all transactions of each director and of his family interests in ordinary shares of the company; and
 - (b) the present Articles of Association of the company.

UNQUOTED/UNLISTED SECURITIES MARKET INVESTMENTS IN THE TOP TWENTY LARGEST HOLDINGS

	Description of business	Proportion of capital owned %	Book cost £	Market value £	Earnings per share p	Dividend per share p	Dividend cover	Net asset value p
Robert Fleming DFM Holdings Spandex	Merchant bank Investment management Distribution of sign-making equipment and consumables	0.5 2.2 1.2	172,669 115,074 350,919	2,959,200 1,349,238 992,000	100 30.9 10.7 (31.12.93)	16.67 10.29 2.33	6.0 3.0 4.6	423.0 73.3 53.6
Metsec	Manufacture of roll-formed products	3.9	599,020	786,000	7.2 (31.12.93)	2.0	3.6	63.9

BOARD OF DIRECTORS



From left to right, M G N Walker, Lord Ramsay, W D Marr, G S Lowden.

W D Marr, (64), was appointed in 1992 and has been chairman since 1993. He is also on the boards of a number of other investment trusts. Prior to his retirement in 1992 Mr Marr was Chairman and Chief Executive of Dunedin Fund Managers Limited.

G S Lowden, (67), a director since 1981, was formerly Chairman of the Dundee Port Authority and Managing Partner, Peat Marwick McLintock, Dundee.

Lord Ramsay, (46), was appointed to the board on 1 November 1993. He was a founder of Enskilda Securities and between 1988 and 1991 was a director of Capel-Cure Myers Capital Management. He is Managing Director of Jamestown Investments Limited and a director of Alex Brown and Sons Holdings Limited and Dunedin Japan Investment Trust.

M G N Walker, (61), a director since 1982, is Chairman of Sidlaw Group and I&S UK Smaller Companies Trust and is a director of Scottish Hydro-Electric and Canadian Helicopters (UK).

DUNEDIN SMALLER COMPANIES
INVESTMENT TRUST PLC

Directors
W D Mac CA Chairman
G S Lowder MA LEB CA
Lord Ramsay
M G N Walker CBE

Directors' Report & Accounts 1994

Registered Office
Baltze House
West Ferry
Dundee DD5 1NF
Telephone (01382) 778244
Registered No. 14692 Scotland

Registrar
Bank of Scotland
Registrar Department
Apex House
9 Haddington Place
Edinburgh EH7 4AL
Telephone 0131-243 5131

Administrator Share Plan
Bank of Scotland
Registrar Department (SP)
Apex House
9 Haddington Place
Edinburgh EH7 4AL
Telephone 0131-243 5070

Administrator Personal Equity Plan
Bank of Scotland
PEP Administration
101 George Street
Edinburgh EH2 3JH
Telephone 0131-243 8040

Auditors
Ernst & Young
Chartered Accountants



DUNEDIN
FUND MANAGERS LTD

Manager and Secretary
Dunedin House
25 Ravelston Terrace
Edinburgh EH4 3EX
Telephone 0131-315 2500
Member of IMRO

DIRECTORS' REPORT

The directors have pleasure in submitting to shareholders the accounts for the year to 31 October 1994.

Revenue

Revenue for the year was £2,387,000 compared with £2,208,000 last year. Revenue available for ordinary shareholders was £1,506,000 compared with £1,465,000 representing earnings per ordinary share of 8.96p compared with 8.72p.

Dividend

A final dividend of 6.00p is recommended for payment on 27 January 1995 to shareholders on the register on 11 January 1995. The ex-dividend date is 19 December 1994. This dividend together with the interim dividend of 3.00p paid during the year makes a total of 9.00p per ordinary share costing £1,512,000 (1993-9.00p costing £1,512,000). This gives rise to a transfer of £6,000 (1993-£47,000) from revenue reserve.

Valuation

The valuation of investments at 31 October 1994 was £58,362,000 (1993-£50,055,000). Ordinary shareholders' funds amounted to £52,933,000 (1993-£50,963,000 after deducting prior charges at book value), giving a net asset value of 315.1p per share (1993-303.4p).

Principal activity and status

The business of the company is that of an investment company within the meaning of Section 266 of the Companies Act 1985. The company qualifies as an investment trust within the meaning of the Income and Corporation Taxes Act 1988 as amended. Inland Revenue approval for such treatment has been given up to 31 October 1993 and the company has subsequently directed its affairs so as to enable it to continue to seek such approval. The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the company. The company currently qualifies for the full investment trust limit of £6,000 in a Personal Equity Plan. It is the present intention that the company will conduct its affairs so as to continue to be a qualifying trust.

Review of the business

A review of the business is given in the Chairman's statement on page 3 and the Investment Manager's review on pages 6 and 7.

Directors

The directors of the company at 31 October 1994 and their interests in the ordinary shares of the company as defined by Schedule 7 to the Companies Act 1985 are shown below:

		Number of Ordinary 25p shares	
		31.10.94	31.10.93
W D Marr	Beneficial	6,340	4,844
G S Lowden	Beneficial	4,345	4,345
Lord Ramsay	Beneficial	4,000	—
M G N Walker	Beneficial	2,000	2,000

There have been no changes in the above holdings between 1 November 1994 and 13 December 1994. M G N Walker retires from the board by rotation and, being eligible, offers himself for re-election. A resolution to this effect will be proposed at the Annual General Meeting.

Contracts of service

No director has a service contract with the company. No contracts of significance in which any director has a financial interest were in existence at any time during the year.

Manager and Secretary

Dunedin Fund Managers Limited is the investment manager of the company and received a fee of 0.40% of the assets of the company, calculated quarterly. Other than in exceptional circumstances the contract is terminable on three years' notice. In addition, Dunedin Fund Managers Limited received £49,000 in respect of secretarial services. (In 1993 KPMG Peat Marwick received £72,000 which included £24,500, in connection with the assignation of their contract as secretary to Dunedin Fund Managers Limited with effect from 1 November 1993.)

Corporate Governance

The company has procedures in place to ensure formal compliance with the provisions of the Cadbury Committee's Code of Best Practice, save for those parts of the Code for which the necessary guidance has not yet been developed. The auditors Ernst & Young have confirmed to the directors that they are satisfied that this statement appropriately reflects the company's compliance with the Code insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for their review.

Notifiable interest

As at 13 December 1994 the undernoted shareholders had reported an interest of 3% or more in the company's share capital:

	Holding	% of class
Ordinary shares of 25p		
The Edinburgh Investment Trust plc	1,630,000	9.70
United Friendly Insurance plc	1,625,000	9.67
Dunedin Income Growth Investment Trust PLC	835,000	4.97
DC Thomson & Company Ltd	831,600	4.95
Scottish Widows Group	800,000	4.76

Cumulative preference stock

On 7 April 1994 £425,000 cumulative preference stock was redeemed at par. Under section 170 of the 1985 Companies Act, a capital redemption reserve has been set up.

Borrowings

During the year the company has entered into a short-term unsecured loan facility agreement for £5,000,000.

Extraordinary General Meeting

At an Extraordinary General Meeting of the company held on 19 July 1994, the shareholders approved resolutions to amend the Memorandum of Association and to adopt new Articles of Association and also to change the name of the company from Dundee and London Investment Trust PLC to Dunedin Smaller Companies Investment Trust PLC.

Contributions

In accordance with its normal practice the company has made no contributions to political or charitable organisations during the year.

Auditors

The auditors, Ernst & Young, Chartered Accountants, have indicated their willingness to continue in office and resolutions concerning their re-appointment and remuneration will be submitted to the Annual General Meeting.

By order of the board,
Dunedin Fund Managers Ltd, Secretary,
Edinburgh, 13 December 1994.

DUNEDIN FUND MANAGERS LIMITED

Claire F. Moman
AUTHORISED SIGNATORY

REVENUE ACCOUNT

FOR THE YEAR ENDED 31 OCTOBER

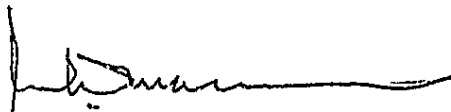
	Note	1994 £000	1993 £000
Revenue			
Income from investments	2	2,141	1,962
Interest receivable on short-term deposits		47	204
Underwriting commissions		199	42
		<u>2,387</u>	<u>2,208</u>
Less			
Administrative expenses	3	328	298
Interest payable	4	145	—
		<u>473</u>	<u>298</u>
Revenue before taxation		<u>1,914</u>	<u>1,910</u>
Taxation	5	402	430
Revenue after taxation		<u>1,512</u>	<u>1,480</u>
Preference dividend		6	15
Revenue available for ordinary shareholders		<u>1,506</u>	<u>1,465</u>
Dividends on ordinary shares	6	1,512	1,512
Transfer from revenue reserve	14	(6)	(47)
Earnings per ordinary share	7	8.96p	8.72p
Dividends per ordinary share	6	9.00p	9.00p

The notes on pages 20 to 24 form part of these accounts.

BALANCE SHEET

AT 31 OCTOBER	Note	1994		1993	
		£000	£000	£000	£000
Fixed assets					
Investments	8		58,362		50,055
Current assets					
Debtors	10	827		1,441	
Cash and short-term deposits		417		1,570	
		<u>1,244</u>		<u>3,011</u>	
Less					
Creditors					
Amounts falling due within one year	11	<u>6,673</u>		<u>1,678</u>	
Net current (liabilities)/assets			<u>(5,429)</u>		<u>1,333</u>
Total assets less current liabilities			<u>52,933</u>		<u>51,388</u>
Capital and reserves					
Called up share capital	13				
Preference stock			—		425
Ordinary shares		4,200		4,200	
Capital reserves					
Redemption reserve	14	425		—	
Realised reserves	14	35,765		37,619	
Unrealised appreciation	14	11,913		8,508	
Revenue reserve	14	<u>630</u>		<u>636</u>	
Ordinary shareholders' funds			<u>52,933</u>		<u>50,963</u>
			<u>52,933</u>		<u>51,388</u>

The notes on pages 20 to 24 form part of these accounts.



W D Marr, Director

The accounts were approved by the board on 13 December 1994.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 OCTOBER	Note	1994	1993
		£000	£000
Operating activities			
Cash received from investments		1,625	1,560
Interest received		54	206
Other cash received		199	42
Investment management and secretarial fees paid		(266)	(219)
Cash paid to and on behalf of directors		(20)	(22)
Other cash payments		(281)	(107)
Net cash inflow from operating activities	15	<u>1,311</u>	<u>1,460</u>
Servicing of finance			
Interest paid		(95)	—
Dividends paid		(1,518)	(1,897)
		<u>(1,613)</u>	<u>(1,897)</u>
		(302)	(437)
Taxation			
UK corporation tax paid		—	(68)
Advance corporation tax received/(paid)		274	(251)
Overseas tax received/(paid)		1	(6)
		<u>275</u>	<u>(325)</u>
		(27)	(762)
Investing activities			
Purchase of investments		(19,775)	(13,177)
Sale of investments		<u>14,074</u>	<u>11,436</u>
Net cash outflow from investing activities		<u>(5,701)</u>	<u>(1,741)</u>
Net cash outflow before financing		<u>(5,728)</u>	<u>(2,503)</u>
Financing			
Sterling loan received	15	(5,000)	—
Repayment of preference shares	15	425	—
		<u>(4,575)</u>	<u>—</u>
Decrease in cash	15	<u>(1,153)</u>	<u>(2,503)</u>
		<u>(5,728)</u>	<u>(2,503)</u>

The notes on pages 20 to 24 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 OCTOBER

	1994	1993
	£000	£000
Capital profit on investments		
Realised gains and losses	(1,303)	(939)
Increase in unrealised appreciation	<u>3,405</u>	<u>14,576</u>
	2,102	14,037
Management and secretarial fees capitalised, net of taxation	<u>(126)</u>	<u>(120)</u>
Capital surplus for the year	1,976	13,917
Revenue available for distribution to ordinary shareholders	<u>1,506</u>	<u>1,465</u>
Total recognised gains and losses for the year	3,482	15,382
Dividends	<u>(1,512)</u>	<u>(1,512)</u>
Total movement in ordinary shareholders' funds	<u>1,970</u>	<u>13,870</u>

RECONCILIATION OF MOVEMENTS IN ORDINARY SHAREHOLDERS' FUNDS

	1994	1993
	£000	£000
Balance at 31 October 1993	50,963	37,093
Revenue available for distribution to ordinary shareholders	1,506	1,465
Dividends	<u>(1,512)</u>	<u>(1,512)</u>
Non distributable capital surplus for the year	<u>1,976</u>	<u>13,917</u>
Balance at 31 October 1994	<u>52,933</u>	<u>50,963</u>

NOTES ON THE ACCOUNTS

1 Accounting basis and 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. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

- (a) **Revenue, expenses and interest payable** – Income from investments, including taxes deducted at source and imputed tax credits, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short-term deposits and expenses are treated on an accruals basis.
- (b) **Investments** – Listed investments are valued at market prices, foreign currencies being converted at the rate of exchange ruling at the relevant balance sheet date. Unlisted investments which include investments traded on the Unlisted Securities Market or under Rule 4.2(a) of The Stock Exchange are valued by the directors taking account of latest dealing prices, brokers' valuations and other available accounting information as appropriate.
- (c) **Realised capital reserves** – Gains and losses on realisation of investments and currency are dealt with in the realised capital reserves. 50% of the investment management and secretarial fees along with the associated irrecoverable VAT are charged to this reserve. The associated tax relief is credited to this reserve.
- (d) **Unrealised appreciation/(depreciation) reserve** – Increases and decreases in the valuation of investments held are dealt with in this reserve.
- (e) **Taxation** – ACT on dividends paid and proposed is included in current taxation payable and recoverable only to the extent that it is not covered by tax credits on franked investment income received up to the balance sheet date or receivable in the following year. Deferred tax is provided for on short-term timing differences.

2 Income from investments

		1994		1993	
		Franked £000	Unfranked £000	Franked £000	Unfranked £000
Dividends					
Listed investments	– UK	1,822	—	1,603	—
	– Overseas	—	—	—	37
Unlisted investments	– UK	283	—	279	—
	– Overseas	—	3	—	10
Interest					
Listed investments	– UK	—	33	—	33
		<u>2,105</u>	<u>36</u>	<u>1,882</u>	<u>80</u>
Total income from investments			<u>2,141</u>		<u>1,962</u>

3 Administrative expenses	1994	1993
	£000	£000
Investment management fee	109	87
Secretarial fee	24	37
Directors' fees	19	22
Auditors' remuneration – audit services	8	6
Other expenses including irrecoverable VAT	168	146
	<u>328</u>	<u>298</u>

Particulars of directors' remuneration excluding pension contributions:	1994	1993
Chairman and highest paid director	£5,000	£4,750
Directors' remuneration including the Chairman fell within the following ranges:		
£Nil-£5,000	4	5

50% of the investment management and secretarial fees along with the associated irrecoverable VAT are charged against capital. This charge excluding VAT amounted to £133,000 (1993-£124,000).

4 Interest payable	1994	1993
	£000	£000
Interest payable on:		
Bank overdraft	2	—
Sterling loan (repayable within one year)	143	—
	<u>145</u>	<u>—</u>
5 Taxation	1994	1993
	£000	£000
UK Corporation tax (recoverable)/payable at 33% (1993 – 33%)		
on the revenue before taxation.	(28)	6
Deferred taxation	(18)	—
Less: Overseas tax relief	—	(6)
	<u>(46)</u>	<u>—</u>
Add: Overseas tax	1	6
Tax attributable to franked investment income	422	396
Irrecoverable Advance Corporation Tax	25	28
	<u>402</u>	<u>430</u>

No provision has been made for Advance Corporation Tax on the final dividend as in the opinion of the directors such tax will be fully relieved by tax credits.

6 Dividends	1994	1993
	£000	£000
Dividends on the ordinary shares for the year are as follows:		
Interim dividend of 3.0p per share (1993-3.0p) paid	504	504
Final dividend of 6.0p per share (1993-6.0p) payable	1,008	1,008
	<u>1,512</u>	<u>1,512</u>

7 Earnings per share	1994	1993
The calculation of earnings per ordinary share of 8.96p (1993-8.72p) is based upon the following figures:		
Number of ordinary shares in issue	16,800,000	16,800,000
Earnings	£1,506,000	£1,465,000

8 Investments	Listed in UK	Unlisted	Total
	£000	£000	£000
Valuation at 31 October 1993	39,659	10,396	50,055
Unrealised appreciation	(4,038)	(4,470)	(8,508)
Book cost at 31 October 1993	35,621	5,926	41,547
Additions at cost	19,028	768	19,796
Disposals at cost	(13,619)	(1,275)	(14,894)
Transfers at cost	780	(780)	—
Book cost at 31 October 1994	41,810	4,639	46,449
Unrealised appreciation	7,138	4,775	11,913
Valuation at 31 October 1994	48,948	9,414	58,362

9 Unlisted investments	1994	1993
	£000	£000
Unlisted Securities Market	4,371	4,951
Unquoted	5,043	5,445
	9,414	10,396

10 Debtors	1994	1993
Amounts falling due within one year:	£000	£000
Net dividends receivable	317	221
Stockbrokers' settlements	409	892
Interest receivable	—	7
Deferred taxation	18	—
Taxation recoverable	66	310
Other debtors	17	11
	827	1,441

11 Creditors	1994	1993
Amounts falling due within one year:	£000	£000
Stockbrokers' settlements	575	554
Sterling loan (note 12)	5,000	—
Other creditors	90	116
Final dividend	1,008	1,008
	6,673	1,678

12 Sterling loan

Details of the loans outstanding at 31 October 1994 were as follows:

	Amount	%	Interest fixed to
Sterling loan	£5,000,000	5.9825%	30 November 1994

The maximum amount drawn down during the year to 31 October 1994 was £5,000,000

13 Share capital	1994	1993
Authorised:	£000	£000
5% (now 3½% + tax credit) cumulative preference stock	—	425
20,800,00 (1993–20,800,000) ordinary shares of 25p	5,200	5,200
	<u>5,200</u>	<u>5,625</u>
Allotted, called up and fully paid:		
5% (now 3½% + tax credit) cumulative preference stock	—	425
16,800,00 (1993–16,800,000) ordinary shares of 25p	4,200	4,200
	<u>1,200</u>	<u>4,625</u>

On 7 April 1994 £425,000 cumulative preference stock was redeemed at par. Under section 170 of the 1985 Companies Act, a capital redemption reserve has been set up (note 14).

14 Movements in reserves	£000
Capital redemption reserve	
Balance at 31 October 1993	—
Preference stock repaid during year (note 13)	425
Balance at 31 October 1994	<u>425</u>

Realised capital reserve	
Balance at 31 October 1993	37,619
Net gains/(losses) on realisations during year - listed	(1,329)
- unlisted	26
Management and secretarial fees, net of taxation (note 3)	(126)
Preference stock repaid during year (note 13)	(425)
Balance at 31 October 1994	<u>35,765</u>

Unrealised appreciation	
Balance at 31 October 1993	8,508
Appreciation in the year	3,405
Balance at 31 October 1994	<u>11,913</u>

Revenue reserve (distributable)	
Balance at 31 October 1993	636
Revenue account transfer for the year	(6)
Balance at 31 October 1994	<u>630</u>

15 Cash Flow Statement

	1994	1993
Reconciliation of operating surplus to net cash inflow from operating activities	£000	£000
Net revenue before interest payable and taxation	2,059	1,910
Increase in debtors	(93)	(11)
(Decrease)/increase in creditors	(76)	102
Tax on franked investment income included within income from UK companies	(422)	(396)
Investment management fees charged to capital	(157)	(145)
Net cash inflow from operating activities	<u>1,311</u>	<u>1,460</u>

Analysis of changes in cash during the year

Balance at 31 October 1993	1,570	4,073
Net cash outflow	(1,153)	(2,503)
Balance at 31 October 1994	<u>417</u>	<u>1,570</u>

Analysis of changes in financing during the year

	Share capital	Loans
	£000	£000
Balance at 31 October 1993 and 31 October 1992	4,625	—
Cash (outflows)/inflows from financing	(425)	5,000
Balance at 31 October 1994	<u>4,200</u>	<u>5,000</u>

16 Contingent liabilities

There are contingent liabilities in respect of underwriting agreements amounting to £1,922,000 (1993-£3,011,000).

Uncalled liabilities in respect of nil paid shares amount to £308,000 (1993-£Nil).

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The directors are required by law to prepare accounts which give a true and fair view of the state of affairs of the company at the end of the financial year and of its revenue and cash flows for the year. In addition, the directors are responsible for ensuring that adequate accounting records are maintained, that the assets of the company are safeguarded and that fraud and other irregularities are prevented or detected.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts of the company for the year ended 31 October 1994 and that applicable Accounting Standards have been followed.

AUDITORS' REPORT TO THE MEMBERS OF DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

We have audited the accounts on pages 16 to 24, which have been prepared under the historical cost convention modified to include the revaluation of investments and on the basis of the accounting policies set out on page 20.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

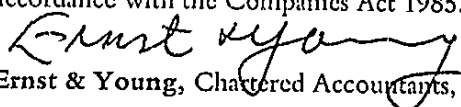
Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 October 1994 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young, Chartered Accountants, Registered Auditor,
Dundee, 13 December 1994.