

ANNUAL REPORT 1996
DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

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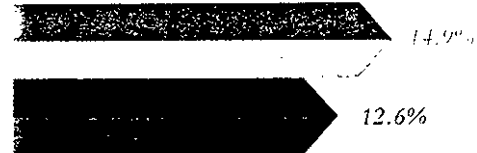


FINANCIAL HIGHLIGHTS

Net asset value per share increased by 14.9% to 402.5p

0 3 6 9 12 15 18 %

Net Asset Value



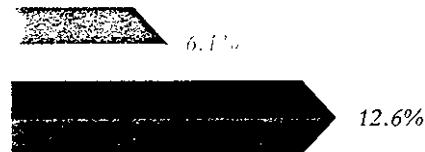
FT-SE Small Cap Index (ex-Investment Trusts)

Percentage change from 1 November 1995 – 31 October 1996

Share price increased by 6.1% to 346.0p

0 3 6 9 12 15 18 %

Share Price



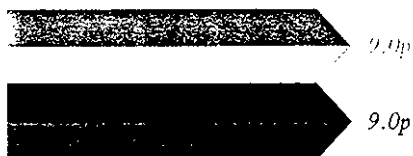
FT-SE Small Cap Index (ex-Investment Trusts)

Percentage change from 1 November 1995 – 31 October 1996

Annual dividend maintained at 9.0p

0 2 4 6 8 10 12 p

Dividend -1996

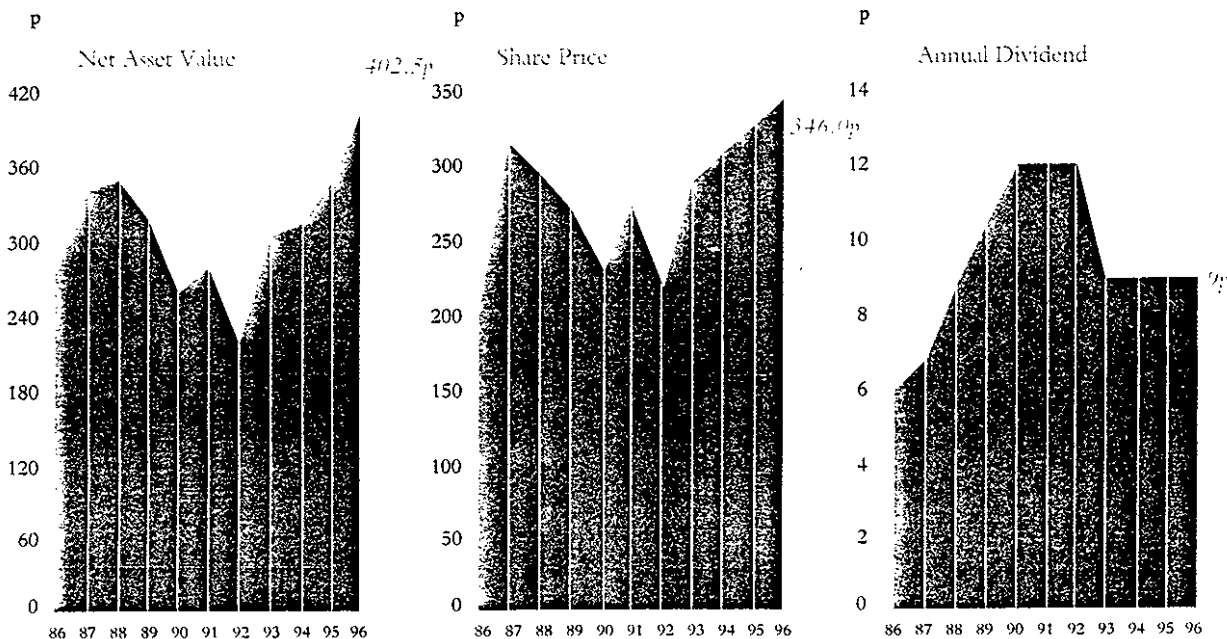


Dividend -1995

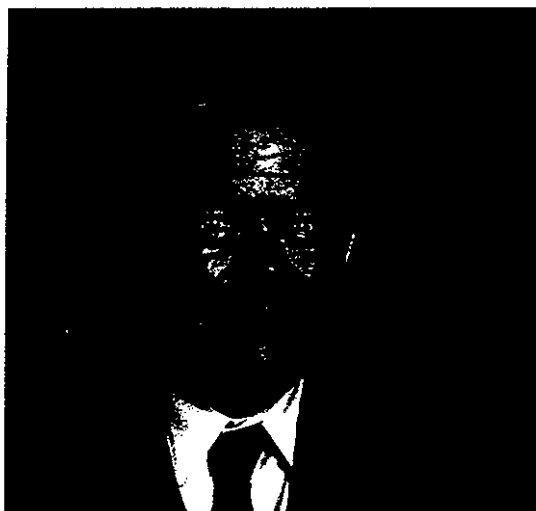
OBJECTIVE

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



This is my first report as Chairman and in a year of transition, it is pleasing to report continued outperformance by the company relative to the FT-SE Small Cap Index (excluding Investment Trusts). The net asset value per share increased by 14.9% to 402.5p, while the share price rose by 6.1% to 346.0p. The strong absolute performance of smaller companies vindicated the board's decision to use short-term borrowings to enhance performance.

The most significant change during the year was the assignation of the management contract to Edinburgh Fund Managers plc (Edinburgh) following the merger of Dunedin Fund Managers and Edinburgh. The transitional period has gone smoothly and the company has continued to outperform its benchmark index. We look forward to a period of stability in the management of the company.

The board is recommending a maintained dividend for the year of 9.0p. The accounts are presented in line with revised accounting standards and this results in earnings per share of 9.54p.

The board continue to recommend the use of borrowings in order to increase the rate of asset growth during periods when we are confident of the investment outlook. The current structure gives the flexibility to adjust gearing as required.

The company is in a strong position after a year of change. The long-term attractions of UK smaller companies are undiminished and the company is well placed to capitalise on this.

I M Clubb, Chairman
12 December 1996

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 1981 would, after 15 years with dividends reinvested, have been worth £7,016 by 1 November 1996. This compares with £3,057 for the highest rate available from a building society and £1,998 for the UK Retail Prices Index.

Source: Micropal 1 November 1981 – 1 November 1996. 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, shares can be bought directly through the Dunedin Investment Trusts Share Plan and the Dunedin Investment Trusts Personal Equity Plan.

Dunedin Investment Trusts Share Plan – Originally introduced in 1987, the Plan has attracted around 650 investors to the company. 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 around 1,800 investors to the company. 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 company 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 (plus VAT) and an annual charge of 0.5% (plus VAT). There is **no charge** for buying or selling shares in the company within the PEP 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 company through either the Share Plan or the PEP.

The Investment Trust Pension – This low cost and flexible pension allows you to include the company in your retirement planning. The Dunedin Pension offers you a straightforward investment trust based alternative to traditional options and offers a Personal Pension Plan and a Free Standing Additional Voluntary Contribution Plan. It has received a lot of good comment in the press and is proving popular with investors. Contributions can be made monthly, yearly or by lump sums, at very low cost.

Note – 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 company's share price appears under the heading 'Investment Trusts' in the Financial Times, The Daily Telegraph, The Times, The Guardian, The Independent and The Scotsman. 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 Donaldson House on Tuesday 21 January 1997 at 2.00pm.

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

Client HelpDesk
Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone: 0131-313 1000
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	3,682	20.0
5,001 – 25,000	147	8.8
Over 25,000	66	71.2
	<u>3,895</u>	<u>100.0</u>

Type of shareholder

UK individuals (including Share Plan and PEP)	3,845	61.6
Insurance companies and pension funds	34	18.7
Investment and unit trusts	5	14.7
Banks and nominees	2	3.6
Local authorities	2	0.6
Other institutions	7	0.8
	<u>3,895</u>	<u>100.0</u>



Andrew Bamford is the fund manager.

Results – The past year has seen the positive momentum in the UK equity market continue. Large and small stocks have performed equally strongly: the FT-SE All-Share Index rose by 12.8% while the FT-SE Small Cap Index (excluding Investment Trusts) rose by 12.6%. The company outperformed its benchmark index with a return of 14.9%. The portfolio has been restructured over the last six months and enters the new financial year in good shape.

Management – The last year has been one of transition in the management of the company. Uncertainty was resolved when Dunedin and Edinburgh were merged on 19 March 1996. Andrew Bamford assumed the role of manager at this time. The immediate objective was to build a platform from which to promote the company and generate consistent outperformance.

There is good reason to suggest the merger is yielding operational benefits. Dunedin had a well developed screening system for identifying undervalued stocks. This has been

enhanced following the merger and will complement Edinburgh's approach which focuses on the fundamental analysis of companies. We are confident the combined approach will identify undervalued stocks with sound fundamentals.

Review of the Year – The UK equity market has performed strongly over the year. A number of factors contributed to the performance: low interest rates, high levels of corporate activity, benign inflation and strong institutional cashflows. This combination of factors led to a re-rating of smaller companies as investors focused on the prospects for stronger economic growth. Political concerns and the inflationary threat were looming towards the year end.

The prevalent investment theme over the period was the return of consumer confidence. Retail stocks performed strongly, with good earnings growth from a depressed base. This theme carried over into more buoyant conditions for the housebuilders. Strong performances were also registered by stocks relating to computer services and outsourced services.

Manufacturing stocks had a frustrating year. UK industry remained highly competitive in the European market but demand was patchy and price sensitive. The problems in the European economies impinged on the performance of a number of UK companies. Commodity price fluctuations also caused problems for many companies.

Portfolio – In March the company benefited from the sale of its stake in DFM Holdings Limited to Edinburgh Fund Managers Group plc. Two stocks in the portfolio were taken over: Bromsgrove Industries and Tom Cobleigh. The other significant gain was recorded in Scottish Highland Hotels which was held as an unquoted investment and recently achieved a successful flotation. As a matter of policy the company does not actively invest in unquoted or AIM stocks.

The sector trends referred to earlier were reflected in underlying stock performances. Good performances were recorded by Oasis, Kingsbury and Headlam in the consumer sectors. Delphi and Ideal Hardware emphasised the strength of the computer services market. Capita proved an excellent play on the outsourcing market.

Disappointments came generally as a result of company specific problems. Protean fell following problems with a German acquisition. TLG issued a profits warning following price pressure. Havelock Europa suffered a setback after failing to cope with increased demand. The market dealt with disappointments harshly, and the company had success in selling ahead of profit warnings from Alexandra Workwear, Graham, Vardon and Wellman, highlighting the virtue of careful stock selection.

Action has been taken to remove a number of holdings with poor fundamentals in very small, illiquid stocks. Thirteen stocks capitalised at under £25m were sold and this resolves a long-standing drain on performance. The portfolio will move gradually to better reflect the market capitalisation spread in the FT-SE Small Cap Index, our benchmark index.

Outlook – The higher level of the UK equity market is justified by low interest rates, benign inflation and strong institutional cashflows. Economists remain positive on the outlook for UK economic growth in 1997. UK companies retain their competitiveness and consumers are displaying greater confidence than in recent times. This is a very favourable background for UK smaller companies.

It should be remembered that the last year has seen share ratings rise in small companies. This leaves little room for disappointment. Upgrades to earnings forecasts will be needed to sustain a positive momentum. Disappointments will be treated severely in share price terms. There is also underlying uncertainty relating to politics and the direction of interest rates.

The long-term attractions of smaller companies relative to their larger counterparts remain intact. Small companies have an ability to grow faster. They are frequently more reactive and flexible. Good management make a difference at all levels of a small business, providing a compelling long-term case for investment. Selectivity remains the key and we believe we have an analytical stock selection process which can continue to deliver good returns in the future.

LIST OF HOLDINGS

	£000		£000
Avon Rubber	1,707	BSS	697
Headlam	1,438	Walker Greenbank	695
EFT	1,385	Greggs	681
HTV	1,325	Scholl	673
Servomex	1,325	London Scottish Bank	655
Wyko	1,301	Westminster Health Care	654
Partco	1,290	Belhaven Brewery	653
Wolstenholme Rink	1,272	P & P	650
Mayflower	1,163	Expro	638
Acal	1,133	Austin Reed	632
Grampian Holdings	1,121	Cala	627
Oasis	1,118	Prowting	600
Renold	1,090	Pillar Property Investments	590
Pressac	1,090	My Kinda Town	586
MacDonald Hotels	1,064	TLG	580
Scottish Highland Hotels*	1,044	British Polythene Industries	577
City Centre Restaurants	1,013	UDO	576
Watson & Philip	981	Saville Gordon (J)	568
Peter Black	980	Hoare Govett 1000 Investment Trust	567
Denby	978	Rubicon	549
Delphi	978	Goode Durrant	529
Boxmore	946	Epwin	519
Forth Ports	941	Princedale	499
Kingsbury	940	JLI	491
Tibbet & Britten	932	Helical Bar 5.25% Red Pref 2012	486
Swallowfield	926	Allied London Properties	480
Eurodis Electron	917	Hampson Industries	476
Perry	902	Airsprung Furniture	475
Ascot	900	Ricardo	470
McLeod & Russel	882	Kenwood Appliances	469
Bridport Gundry	873	Britt Allcroft	438
Rosebys	858	Unicorn International	436
Hicking Pentecost	858	Protean	435
Havelock Europa	852	TGI	424
Wyevale Garden Centres	848	Bradstock	416
Waste Recycling	838	Brandon Hire	412
Carclo Engineering	827	Richardsons Westgarth	412
Eldridge Pope	809	Compel	379
domnick hunter	798	BWI	344
David Brown	795	Tom Cobleigh	276
Spandex	782	Concentric	266
Associated Paper Industries	772	Doeflex	232
Regal Hotels	746	Claremont Garment	202
Ideal Hardware	744	Prospect Industries	200
Dowding & Mills	742	Manders	179
Bett Brothers	736	Candover 1987 Fund*	140
Southnews	733	Telspec	135
Capita	732	J F Japan Venture 1*	90
GWR	732	Leach International*	59
Hemingway Properties	731	Jarvis Hotels	38
Victrex	720	Dunedin Berkeley Development*	30
Cropper (James)	701		<u>73,194</u>

* Unquoted Investments

ANALYSIS OF VALUATION

AT 31 OCTOBER	1996		1995	
Equities and convertibles	£000	%	£000	%
Mineral extraction				
Oil exploration and production	638	0.9	—	—
	638	0.9	—	—
General industrials				
Building and construction	3,228	4.4	1,963	3.1
Building materials and merchants	519	0.7	3,441	5.4
Chemicals	2,402	3.3	2,744	4.3
Diversified industrials	2,903	3.9	475	0.7
Electronic and electrical equipment	4,355	5.9	4,167	6.5
Engineering	6,629	9.0	11,864	18.5
Engineering, vehicles	2,871	3.9	2,154	3.4
Printing, paper and packaging	2,997	4.1	2,400	3.8
Textiles and apparel	1,932	2.6	4,027	6.3
	27,836	37.8	33,235	52.0
Consumer goods				
Alcoholic beverages	—	—	961	1.5
Food producers	491	0.7	869	1.3
Household goods	4,522	6.2	3,916	6.1
Health care	1,327	1.8	1,073	1.7
	6,340	8.7	6,819	10.6
Services				
Distributors	9,204	12.6	4,522	7.1
Leisure and hotels	2,891	4.0	2,276	3.5
Media	3,727	5.1	2,197	3.4
Retailers, food	1,663	2.3	3,057	4.8
Retailers, general	4,396	6.0	1,762	2.8
Breweries, pubs & restaurants	3,336	4.6	1,195	1.9
Support services	4,624	6.3	3,600	5.6
Transport	2,402	3.3	1,011	1.6
	32,243	44.2	19,620	30.7
Financials				
Insurance	416	0.6	—	—
Other financial	2,300	3.1	2,751	4.3
Property	2,854	3.9	1,535	2.4
Investment trusts	567	0.8	—	—
	6,137	8.4	4,286	6.7
Total equities and convertibles	73,194	100.0	63,960	100.0
Short-term borrowings	(5,000)		(5,000)	
Other net current liabilities	(580)		(109)	
Ordinary shareholders' funds	67,614		58,851	
Convertible amount to £486,000 (1995-£446,000)				
Overseas investments amount to £179,000 (1995-£271,000)				

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
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
1995	63,851	5,000	58,851	1,553	350.3	9.24	9.00	326
1996	72,614	5,000	67,614	1,602	402.5	9.54	9.00	346

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. Figures for 1995 and 1996 reflect the change in accounting policy for the Statement of Recommended Practice.

COMPARISON OF MARKET CAPITALISATION

AT 31 OCTOBER 1996		FT-SE Small Cap	
UK quoted companies		Index (ex-Investment	
Equity market capitalisation		Trusts) weighting	
£m		%	%
0 - 25		4.9	0.2
25 - 50		13.7	2.9
50 - 75		17.1	8.8
75 - 100		12.8	9.8
100 - 125		10.2	11.5
125 - 150		3.6	9.4
150 - 175		12.6	9.4
175 - 200		7.4	9.0
200 - 225		4.3	7.2
225 - 250		3.5	9.6
250 - 275		2.3	8.0
275 - 300		5.8	9.3
300 +		1.8	4.9
Total		100.0	100.0

INVESTMENT CHANGES

	Valuation at 31.10.95	Purchases	Sales	Appreciation (depreciation)	Valuation at 31.10.96
	£000	£000	£000	£000	£000
Equities					
UK	63,689	27,235	(24,212)	6,303	73,015
Other areas	271	—	—	(92)	179
Total equities	63,960	27,235	(24,212)	6,211	73,194

**DUNEDIN SMALLER COMPANIES
INVESTMENT TRUST PLC**

Directors

I M Clubb, Chairman
G S Lowden MA LLB CA
Lord Ramsay
M G N Walker CBE

Registered Office

Belsize 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 5181

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

KPMG
Chartered Accountants

Manager and Secretary

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone 0131-313 1000
Regulated by IMRO

BOARD OF DIRECTORS



I M Clubb, (55), was appointed to the board on 21 March 1995 and has been Chairman since 12 December 1995. He is Chairman of Central Transport Rental Group and a director of Fenchurch, First Choice Holidays, Shanks & McEwan Group, TLG, Expro International Group and B. Elliot.

Lord Ramsay, (48), a director since 1993, is a founder of Enskilda Securities and between 1988 and 1991 was a director of Capel-Cure Myers Capital Management. He is Chairman of Jamestown Investments Limited and a director of Alex Brown and Sons Holdings Limited and Edinburgh Japan Trust.



G S Lowden, (69), a director since 1981, was formerly Chairman of the Dundee Port Authority and Managing Partner, KPMG, Dundee.

M G N Walker, (63), a director since 1982, is Chairman of Sidlaw Group and Ivory & Sime UK Smaller Companies Trust and is a director of Scottish Hydro-Electric.



The directors are all members of the Audit and Management Engagement Committee.

DIRECTORS' REPORT

The directors have pleasure in submitting to shareholders the accounts for the year to 31 October 1996.

Revenue

Revenue for the year was £2,438,000 compared with £2,327,000 last year. Revenue available for ordinary shareholders was £1,602,000 compared with £1,553,000 (restated) representing earnings per ordinary share of 9.54p compared with 9.24p (restated).

Dividend

A final dividend of 6.00p is recommended for payment on 27 January 1997 to shareholders on the register on 8 January 1997. The ex-dividend date is 30 December 1996. 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 (1995-9.00p costing £1,512,000). This gives rise to a transfer of £90,000 (1995-£41,000 restated) to revenue reserve.

Valuation

The valuation of investments at 31 October 1996 was £73,194,000 (1995-£63,960,000). Ordinary shareholders' funds amounted to £67,614,000 (1995-£58,851,000), giving a net asset value of 402.5p per share (1995-350.3p).

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 1995 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 Manager's review on pages 6 to 8.

Directors

The directors of the company at 31 October 1996 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	
		31.10.96	31.10.95
I M Clubb	Beneficial	5,000	5,000
G S Lowden	Beneficial	4,345	4,345
Lord Ramsay	Beneficial	4,000	4,000
M G N Walker	Beneficial	2,000	2,000

There have been no changes in the above holdings between 1 November 1996 and 12 December 1996. Mr G S Lowden retires from the board by rotation and is eligible 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.

Authority to Issue New Shares

The directors are proposing as Special Business at the Annual General Meeting, that the power granted to the directors at the Annual General Meeting held on 23 January 1996, to allot new shares representing up to 5% of the current issued ordinary share capital for cash on a non pre-emptive basis, be renewed until next year's Annual General Meeting, or 21 April 1998, whichever is the earlier.

Management

Edinburgh Fund Managers plc is the manager of the company and receives an annual fee of 0.40% of the gross assets of the company, excluding commonly managed funds. In addition, Edinburgh Fund Managers plc receives £50,000 in respect of secretarial services. In February 1996, DFM Holdings Limited, the parent company of Dunedin Fund Managers Limited, was purchased by Edinburgh Fund Managers Group plc, and Edinburgh Fund Managers plc was appointed manager and Secretary. As a result, alterations have been made to the management contract and it will run for a fixed period of three years from 15 February 1996 reducing to a rolling two year notice period from 31 January 1997.

Notifiable Interest

As at 12 December 1996 the undernoted shareholders had reported an interest of 3% or more in the company's share capital:

Ordinary Shares of 25p	Holding	% of class
The Edinburgh Investment Trust plc	1,630,000	9.70
DC Thomson & Company Ltd	831,600	4.95
Dunedin Income Growth Investment Trust PLC	835,000	4.97

Corporate Governance

The company has complied throughout the financial year with the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance. The directors acknowledge that they are responsible for the company's system of internal financial controls. The board meets regularly and reviews performance against approved estimates and forecasts. In addition, the manager maintains its own system of internal financial controls and the Audit and Management Engagement Committee receive periodic reports from the compliance department of the investment manager on those systems. These systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. The directors have reviewed the operation and the effectiveness of the company's system of financial controls during the year.

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

The auditors, KPMG, have confirmed that in their opinion, with respect to the directors' statements on internal financial controls and going concern above, the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements, and that the directors' statement above appropriately reflects the company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review. They have carried out their review in accordance with the Bulletin issued by the Auditing Practices Board which does not require them to perform any additional work necessary to, and they did not, express a separate opinion on the effectiveness of either the company's system of internal financial control or corporate governance procedures or the ability of the company to continue in operational existence.

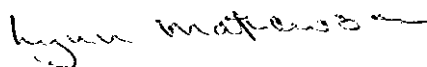
Contributions

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

Auditors

The auditors, KPMG, have indicated that a limited liability company, KPMG Audit Plc, is to undertake all audits of listed companies. Accordingly, resolutions concerning the appointment of KPMG Audit Plc as auditors and their remuneration will be proposed at the Annual General Meeting.

By order of the board,
Edinburgh Fund Managers plc, Secretary,
Edinburgh, 12 December 1996



DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT) OF THE COMPANY

Year to 31 October 1996

	Revenue	Capital	Total
	£000	£000	£000
Realised gains on investments	—	2,859	2,859
Unrealised gains on investments	—	6,211	6,211
Income from investments	2,334	—	2,334
Interest receivable on short-term deposits	56	—	56
Underwriting commissions	48	—	48
Investment management fee	(69)	(250)	(319)
Other (expenses)/income	(229)	42	(187)
Net return before finance costs and taxation	2,140	8,862	11,002
Interest payable and similar charges	(104)	(237)	(341)
Net return on ordinary activities before tax	2,036	8,625	10,661
Tax on ordinary activities	(434)	48	(386)
Return on ordinary activities after tax for the financial year	1,602	8,673	10,275
Dividends and other appropriations in respect of equity shares	(1,512)	—	(1,512)
Return attributable to equity shareholders	90	8,673	8,763
Dividend per ordinary share	9.00p		
Return per ordinary share	9.54p	51.63p	61.17p

Year to 31 October 1995

as restated

Revenue	Capital	Total
£000	£000	£000
—	4,298	4,298
—	1,959	1,959
2,153	—	2,153
47	—	47
127	—	127
(59)	(202)	(261)
(206)	—	(206)
<hr/>		
2,062	6,055	8,117
(92)	(263)	(355)
<hr/>		
1,970	5,792	7,762
(417)	85	(332)
<hr/>		
1,553	5,877	7,430
(1,512)	—	(1,512)
<hr/>		
41	5,877	5,918
<hr/>		
9.00p		
9.24p	34.98p	44.22p

BALANCE SHEET

AT 31 OCTOBER

		1996		1995	
				as restated	
	Note	£000	£000	£000	£000
Fixed assets					
Investments	10		73,194		63,960
Current assets					
Debtors	12	829		459	
Cash and short-term deposits		<u>140</u>		<u>761</u>	
		969		1,220	
Less					
Creditors					
Amounts falling due within one year	13	<u>6,549</u>		<u>6,329</u>	
Net current liabilities			(5,580)		(5,109)
Total assets less current liabilities			<u>67,614</u>		<u>58,851</u>
Capital and reserves					
Called up share capital	15				
Ordinary shares			4,200		4,200
Capital reserves					
Redemption reserve	16		425		425
Realised reserves	16		42,145		39,683
Unrealised appreciation	16		20,083		13,872
Revenue reserve	16		<u>761</u>		<u>671</u>
Ordinary shareholders' funds			<u>67,614</u>		<u>58,851</u>

The notes on pages 21 to 27 form part of these accounts.



I M Clubb, Director

The accounts were approved by the board on 12 December 1996.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 OCTOBER

		1996		1995	
	Note	£000	£000	£000	£000
Operating activities					
Cash received from investments			1,833		1,838
Interest received			56		48
Other cash received			—		248
Investment management and secretarial fees paid			(326)		(286)
Cash paid to and on behalf of directors			(39)		(37)
Other cash payments			(205)		(137)
Net cash inflow from operating activities	17		1,319		1,674
Servicing of finance					
Interest paid			(318)		(373)
Dividends paid			(1,512)		(1,512)
			(1,830)		(1,885)
			(511)		(211)
Taxation					
Tax relief for surplus franked investment income			123		67
Overseas tax received			—		—
			123		67
			(388)		(144)
Investing activities					
Purchase of investments			(26,718)		(14,991)
Sale of investments			26,485		15,479
Net cash inflow/(outflow) from investing activities			(233)		488
Net cash inflow/(outflow) before financing			(621)		344
Financing					
Increase/(decrease) in cash	17		(621)		344
			(621)		344

The notes on pages 21 to 27 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 OCTOBER

	1996	1995 as restated
	£000	£000
Capital profit on investments		
Realised gains and losses	2,859	4,298
Increase in unrealised appreciation	<u>6,211</u>	<u>1,959</u>
	9,070	6,257
Other capital items	90	85
Loan interest capitalised	(237)	(263)
Management and secretarial fees capitalised, net of taxation	<u>(250)</u>	<u>(202)</u>
Capital surplus for the year	8,673	5,877
Revenue available for distribution to ordinary shareholders	<u>1,602</u>	<u>1,553</u>
Total recognised gains and losses for the year	10,275	7,430
Dividends	<u>(1,512)</u>	<u>(1,512)</u>
Total movement in ordinary shareholders' funds	<u>8,763</u>	<u>5,918</u>

RECONCILIATION OF MOVEMENTS IN ORDINARY SHAREHOLDERS' FUNDS

	1996	1995 as restated
	£000	£000
Balance at 31 October 1995	58,851	52,933
Revenue available for distribution to ordinary shareholders	1,602	1,553
Dividends	(1,512)	(1,512)
Non distributable capital surplus for the year	<u>8,673</u>	<u>5,877</u>
Balance at 31 October 1996	<u>67,614</u>	<u>58,851</u>

NOTES ON THE ACCOUNTS

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.

– 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.

– 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 Alternative Investment Market or under Rule 4.2(a) of The Stock Exchange are valued by the directors taking account of latest dealing prices, brokers' valuations and other available accounting information as appropriate.

– Gains and losses on realisation of investments and currency are dealt with in the realised capital reserves. 75% 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.

– Increases and decreases in the valuation of investments held are dealt with in this reserve.

– Deferred taxation is provided for on short-term timing differences.

As from 1 November 1995 the company has adopted the recommendations of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP). This has resulted in certain changes in accounting policy, details of which are given below. In addition, as recommended by the SORP, a Statement of Total Return, which combines the Revenue Account and the Statement of Realised and Unrealised Capital Gains, is presented on pages 16 and 17. A separate Revenue Account is therefore no longer required. The effect of these changes on the figures previously reported is shown in the adjustment column in note 3.

– 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 has been allocated 75% to capital and 25% to revenue, in line with the board's expectation of returns from the company's investments over the long-term in the form of capital and income respectively. Previously all management fees and secretarial fees were allocated 50% to capital and 50% to revenue. The effect of this change is to increase net revenue after taxation for the year ended 31 October 1996 by £83,000.

(b) Finance costs – Finance costs of debt, insofar as they relate to the financing of the company's investments or to financing activities aimed at maintaining or enhancing the value of the company's investments, are allocated 75% to capital, the balance being allocated to revenue, in line with the board's expectation of returns from the company's investments over the long-term in the form of capital and income respectively. Previously all finance costs were allocated to revenue. The effect of this change is to increase net revenue after taxation for the year ended 31 October 1996 by £237,000.

3 Restatement of Revenue Account for the year ended 31 October 1995

	As previously stated <i>Note</i>	£000	Adjustment £000	Restated £000
Income from investments		2,153	—	2,153
Interest receivable on short-term deposits		47	—	47
Underwriting commissions		127	—	127
Investment management fee		(118)	59	(59)
Other expenses	2a	(181)	(25)	(206)
Net return before finance costs and taxation		2,028	34	2,062
Interest payable and similar charges	2b	(355)	263	(92)
Net return on ordinary activities before taxation		1,673	297	1,970
Tax on ordinary activities		(366)	(51)	(417)
Return on ordinary activities after tax for the financial year		1,307	246	1,553

The taxation charge has been recalculated to reflect the new basis of reporting.

4 Income from investments

		1996		1995	
		Franked £000	Unfranked £000	Franked £000	Unfranked £000
Dividends					
Listed investments	– UK	2,309	—	1,956	—
	– Overseas	25	—	23	—
Unlisted investments	– UK	—	—	138	—
	– Overseas	—	—	—	3
Interest					
Listed investments	– UK	—	—	—	33
		2,334	—	2,117	36
Total income from investments			2,334		2,153

5 Administrative expenses	1996	1995 as restated
	£000	£000
Investment management fee	69	59
Secretarial fee	50	50
Directors' fees	39	37
Auditors' remuneration – audit services	8	7
Other expenses including irrecoverable VAT	132	112
	<u>298</u>	<u>265</u>

Particulars of directors' remuneration excluding pension contributions:	1996	1995
Chairman (first quarter)	£2,500	—
Chairman (2nd to 4th quarter)	£7,500	—
Highest paid director	£10,000	£10,000
Directors' remuneration including the Chairman fell within the following ranges:		
£Nil-£5,000	—	1
£5,001-£10,000	4	4

75% of the investment management and secretarial fees along with the associated irrecoverable VAT are charged against capital. This charge excluding VAT amounted to £207,000 (1995-£177,000).

6 Interest payable	1996	1995 as restated
	£000	£000
Interest payable on:		
Bank overdraft	3	4
Sterling loan (repayable within one year)	101	88
	<u>104</u>	<u>92</u>

7 Taxation	1996	1995 as restated
	£000	£000
Tax attributable to franked investment income	451	418
Relief for surplus franked investment income	(28)	(30)
	<u>423</u>	<u>388</u>
Deferred tax	10	28
Overseas tax	1	1
	<u>434</u>	<u>417</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.

8 Dividends	1996	1995
	£000	£000

Dividends on the ordinary shares for the year are as follows:

Interim dividend of 3.0p per share (1995-3.0p) paid 26 July 1996	504	504
Final dividend of 6.0p per share (1995-6.0p) payable 27 January 1997	<u>1,008</u>	<u>1,008</u>
	<u>1,512</u>	<u>1,512</u>

9 Earnings per share	1996	1995
		as restated

The calculation of earnings per ordinary share of 9.54p (1995-9.24p) is based upon the following figures:

Number of ordinary shares in issue	16,800,000	16,800,000
Earnings	£1,602,000	£1,553,000

10 Investments	Listed in UK	Unlisted	Total
	£000	£000	£000
Valuation at 31 October 1995	59,165	4,795	63,960
Unrealised appreciation	<u>(11,974)</u>	<u>(1,898)</u>	<u>(13,872)</u>
Book cost at 31 October 1995	47,191	2,897	50,088
Additions at cost	27,235	—	27,235
Disposals at cost	<u>(24,097)</u>	<u>(115)</u>	<u>(24,212)</u>
Transfers at cost	<u>1,632</u>	<u>(1,632)</u>	<u>—</u>
Book cost at 31 October 1996	51,961	1,150	53,111
Unrealised appreciation	<u>19,062</u>	<u>1,021</u>	<u>20,083</u>
Valuation at 31 October 1996	<u>71,023</u>	<u>2,171</u>	<u>73,194</u>

11 Unlisted investments	1996	1995
	£000	£000
Unlisted Securities Market	521	2,605
Unquoted	<u>1,650</u>	<u>2,190</u>
	<u>2,171</u>	<u>4,795</u>

	1996	1995
12 Debtors	£000	£000
Amounts falling due within one year:		
Net dividends receivable	244	204
Stockbrokers' settlements	504	104
Deferred taxation	—	—
Taxation recoverable	73	123
Other debtors	8	28
	<u>829</u>	<u>459</u>

	1996	1995
13 Creditors	£000	£000
Amounts falling due within one year:		
Stockbrokers' settlements	438	99
Sterling loan (note 14)	5,000	5,000
Deferred taxation	—	10
Other creditors	103	212
Final dividend	1,008	1,008
	<u>6,549</u>	<u>6,329</u>

14 Sterling loan

Details of the short-term unsecured loan outstanding at 31 October 1996 were as follows:

	Amount	%	Interest fixed to
Sterling loan	£5,000,000	6.2625	29 November 1996

	1996	1995
15 Share capital		
Authorised:	£000	£000
20,800,000 (1995–20,800,000) ordinary shares of 25p	<u>5,200</u>	<u>5,200</u>
Allotted, called up and fully paid:		
16,800,000 (1995–16,800,000) ordinary shares of 25p	<u>4,200</u>	<u>4,200</u>
16 Movements in reserves	£000	
Capital redemption reserve		
Balance at 31 October 1996 and 31 October 1995	<u>425</u>	
Realised capital reserve		
Balance at 31 October 1995	39,929	
Adjustment in respect of change in accounting policies	<u>(246)</u>	
Restated balance at 31 October 1995	39,683	
Net gains on realisations during year	2,859	
Loan interest	<u>(237)</u>	
Management and secretarial fees, net of taxation (note 5)	<u>(250)</u>	
Other capital items	90	
Balance at 31 October 1996	<u>42,145</u>	
Unrealised appreciation		
Balance at 31 October 1995	13,872	
Appreciation in the year	<u>6,211</u>	
Balance at 31 October 1996	<u>20,083</u>	
Revenue reserve (distributable)		
Balance at 31 October 1995	425	
Adjustment in respect of change in accounting policies	<u>246</u>	
Restated balance at 31 October 1995	671	
Revenue account transfer for the year	<u>90</u>	
Balance at 31 October 1996	<u>761</u>	

17 Cash Flow Statement

	1996	1995
Reconciliation of operating surplus to net cash inflow from operating activities	£000	£000
Net revenue before interest payable and taxation	2,140	2,062
Decrease/(increase) in debtors	(28)	102
Increase/(decrease) in creditors	(132)	139
Other income within investment account	50	—
Tax on investment income included		
within income from UK companies – franked	(461)	(418)
– unfranked	—	(9)
Investment management fees charged to capital	(250)	(202)
Net cash inflow from operating activities	<u>1,319</u>	<u>1,674</u>

Analysis of changes in cash during the year

Balance at 31 October 1995	761	417
Net cash inflow/(outflow)	(621)	344
Balance at 31 October 1996	<u>140</u>	<u>761</u>

Analysis of changes in financing during the year

	Share capital	Loans
	£000	£000
Balance at 31 October 1996 and 31 October 1995	<u>4,200</u>	<u>5,000</u>

18 Contingent liabilities

There are contingent liabilities in respect of underwriting agreements amounting to £455,000 (1995–£1,566,000).

Uncalled liabilities in respect of nil paid and partly paid shares amount to £Nil (1995–£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 return 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 1996 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 27, 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 21.

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.

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 misstatement, 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.

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 October 1996 and of its return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
KPMG, Chartered Accountants, Registered Auditor
Edinburgh, 12 December 1996

NOTICE OF MEETING

Notice is hereby given that the sixty-ninth Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at Donaldson House, 97 Haymarket Terrace, Edinburgh on **Tuesday, 21 January 1997 at 2.00pm**, for the following purposes:

1. to receive the Report of the Directors and the Accounts for the year to 31 October 1996 and to declare a final dividend on the ordinary shares.
2. to re-appoint G S Lowden as a director of the company.
3. to consider and, if thought fit, to pass the following resolution as an ordinary resolution that KPMG Audit Plc be and are hereby appointed auditors of the company to hold office from the conclusion of the next general meeting at which accounts are laid before the company.
4. to authorise the board to fix the remuneration of the auditors for the year to 31 October 1997.
5. to consider and, if thought fit, to pass the following resolution as a special resolution:
That the directors be and they are hereby empowered, pursuant to Section 95(1) of the Companies Act 1985, to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) for cash pursuant to the authority granted by an ordinary resolution of the company passed on 19 July 1994 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this authority is limited:
 - (i) to the allotment of equity securities in connection with a rights issue in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise, and
 - (ii) to the allotment (other than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £210,000 ;and shall expire on 21 April 1998 or the conclusion of the next Annual General Meeting of the company after the passing of this resolution (whichever is the earlier) save that the company may, before this authority expires or is replaced, make an offer or agreement which would or might require equity securities to be allotted after such expiry or replacement and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired or, as the case may be, been replaced.

By order of the board, **Edinburgh Fund Managers plc**, Secretary, 12 December 1996.



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. 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 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. No director has a service contract with the company.