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2000

Dunedin Smaller Companies Investment Trust plc

Annual Report and Accounts 31 October 2000

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

Objective	The achievement of long term capital growth from a portfolio of smaller companies in the United Kingdom, at a higher rate than the FTSE Small Cap Index (excluding Investment Trusts).
Benchmark	FTSE Small Cap Index (excluding Investment Trusts)
Investment manager	Edinburgh Fund Managers plc
Equity shareholders' funds	£112.7 million at 31 October 2000
Market capitalisation	£86.8 million at 31 October 2000
Capital structure	16,700,000 ordinary shares of 25p each
Management fee	The basic management fee is 0.4% per annum of adjusted gross assets. There is also a performance-related management fee calculated at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1.0% by which the company's net asset value performance outperforms the capital performance of the benchmark index over the previous 12 month period.
PEP/ISA status	The company's shares are eligible for existing general PEPs, PEP transfers and Individual Savings Accounts (ISAs).
AITC	The company is a member of The Association of Investment Trust Companies and a subscriber to the 'its' advertising campaign.

Financial Summary

	2000	At 31 October 1999	% change
Performance			
Total assets less current liabilities (£'000)	127,508	100,300	+27.1
Equity shareholders' funds (£'000)	112,708	85,509	+31.8
Capital return			
Net asset value per share (p)	673.71	507.74	+32.7
FTSE Small Cap Index (ex investment trusts)	3,238.71	2,596.32	+24.7
Share price (p)	520.00	383.50	+35.4
Total return (capital return plus income re-invested)			
Net asset value (p)	—	—	+35.4
FTSE Small Cap Index (ex investment trusts)	—	—	+28.3
Share price (p)	—	—	+38.9
Total dividend for year (p)	12.90	12.40	+4.0
Revenue return per share (p)	14.97	15.33	-2.3
Net asset value per share adjusted for borrowings valued at market value (p)	651.47	481.40	+35.3
Discount (difference between share price and net asset value)			
– where borrowings are deducted at par value (%)	(22.8)	(24.5)	
– where borrowings are deducted at market value (%)	(20.2)	(20.3)	
Gearing (ratio of borrowings to shareholders' funds)			
Actual gearing ratio (%)	9.5	9.8	
Maximum potential gearing ratio (%)	13.3	17.6	
Expense ratio			
– as % of average shareholders' funds	0.86	0.76	
Year's Highs/Lows			
	High	Low	
Net asset value (p)	769.67	507.74	
Share price (p)	588.00	383.50	
Discount (%)	(16.7)	(29.1)	

Smaller companies maintained strong momentum from the previous year, resulting in good returns for our shareholders. The net asset value per share of the trust rose by 32.7% compared to a rise in the FTSE Small Cap Index (excluding investment trusts) of 24.7%. This is the third consecutive year of outperformance since the fund's restructuring. The manager, Andy Bamford was recognised as Fund Manager of the Year by a Reuters Survey of Finance Directors of UK Smaller Companies. The board would like to congratulate Andy on this prestigious award.

The share price went from 383.5p to 520.0p an increase of 35.6%. Recognition of the quality of the performance of the fund manager has resulted in a strong share price and a narrowing of the discount.

Investment income was satisfactory and your board recommends an increased final dividend of 8.9p which would result in a total dividend for the year of 12.9p (1999–12.4p).

Background

The period under review has been rewarding for investors in smaller company shares. It was however volatile and many companies experienced sharp swings in their share prices as optimism gave way to pessimism in the second half. As the technology sector forged ahead in the winter of 1999/2000, UK smaller companies were actively sought, pushing the overall market sharply higher. Euphoria evaporated in March of this year and the technology sector collapsed by 50% over a ten week period. The quality technology companies recovered, while those with less stable business foundations continued to languish. The second half of the year was difficult for the whole market, not just the technology sector. Rising oil prices and a very competitive market place impacted on margins. The industrial sector was particularly hard hit as the strength of sterling versus the Euro added to these difficulties.

The balanced nature of your trust was of great benefit during the past twelve months. The outperformance was due to a combination of core 'blue chip' companies with consistent earnings

augmented by a number of value stocks and emerging growth companies. Overweight positions in information technology and media were beneficial to performance.

Revenue Account

During the year, greater investment opportunities were identified in the dynamic growth sectors such as technology and media which do not distribute a high level of dividend. This has resulted in a reduction in earnings per share from 15.33p to 14.97p.

Share Buy Back Scheme

Last year shareholder approval was given for the board to take powers to implement a share buy back scheme. These powers were used during this year to purchase a small number of shares at a 27% discount to net asset value. This purchase and the subsequent cancellation of shares have enhanced the current net asset value for the benefit of shareholders.

Management and Directors' Fees

The board has agreed to a change in the fee paid to Edinburgh Fund Managers. In return for increased marketing of your trust by the fund manager and a reduction in the notice period for the termination of the management agreement to one year, the board has encouraged the implementation of a fee structure rewarding superior performance. This could result in a maximum additional fee of 0.5% for outperformance of the benchmark of 5% or more. The overall fee will not exceed 0.9% which remains a highly competitive fee level.

Chairman's Statement

The board conducted a survey of directors' fees of similar size trusts and, as a result, have increased the chairman's and director's fees to £12,500 and £10,000 respectively per annum. These fees will, in future, be linked to changes in RPI.

Marketing Initiatives

The board has decided to support the AITC 'its' campaign for another year. The contribution for the second year will be £15,709 + VAT, a significant reduction from last year's amount. So far, the campaign has been successful in increasing the investing public's awareness of investment trusts and the board looks to the campaign to translate this awareness into greater demand for investment trust shares.

The AITC generic advertising campaign together with the more specifically targeted Edinburgh Fund Managers Investment Trust Initiative aims to increase demand for the company's shares. Edinburgh Fund Managers provides a series of savings schemes through which potential investors can invest in Dunedin Smaller Companies Investment Trust. The managers updated website, www.edfd.com, is a convenient way of finding out more about these savings products.

In addition the manager is committed to increase the number of marketing presentations of the trust for private client brokers and independent financial advisers.

Corporate Governance

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

Outlook

The economic environment in the United Kingdom is reasonable. Interest rates have been stable and are likely to trend down over the next twelve months as inflation continues to be below the target set by the government. Corporate profits will grow steadily while the economic expansion is maintained.

This background of solid growth and low inflation is favourable for UK small companies particularly those with strong management and the ability to protect or improve margins. Stock selection will be paramount.

The fund will continue with a balanced approach and will focus on those companies with a substantial competitive advantage.

The Earl of Dalhousie

Chairman

12 December 2000

The smaller company sector continued to produce attractive returns over the year despite periods of extreme volatility. The company has built on its record of good performance in absolute and relative terms. This is the third consecutive year that the company has exceeded the performance objective. Over the year, the company's net asset value per share rose by 32.7% compared to a rise in the benchmark index of 24.7%. These returns have outperformed the FTSE All Share Index return of 6.0% over the same period.

Market background

After the recovery in small company share prices in 1998/99, the positive momentum was carried into the new millennium. The UK economy was reasonably stable and inflation was kept under control by rising interest rates. In this low inflation environment, investors were continuing to focus quite narrowly on companies with outstanding growth potential. During the period up to 20 March 2000, the focus on growth stocks was driven to unsustainable levels as the market speculated about the prospects for the "new" economy. The failure by some of these companies to meet expectations and an oversupply of new equity issuance led to the inevitable correction over the following ten weeks.

By the beginning of June, valuations in the growth sectors were starting to look reasonable again. Over the summer months investor confidence returned with surprising speed. Despite some notable casualties, the quality growth companies quickly regained their previous levels. However by the end of August, the warning signs were evident once again. The smaller company market could no longer buck the trend of the declining FTSE All Share Index. The oil price hit new highs, Middle Eastern tensions grew, US technology stocks disappointed and once again, new equity issuance was too high. The financial year came to a close with uneasiness in the market which was reflected in extreme volatility on a daily basis.

In the wider UK economy, trading conditions were challenging for many companies. Deflationary

pressures are a fact of life for companies in the manufacturing and retail sectors. The value of sterling remained high relative to the Euro, further undermining export potential and translation of overseas earnings. The stock market continued to attribute very low valuations to companies exposed to these challenges. Companies on low valuations continued to attract corporate activity but not to the same level experienced in 1998/99.

The year was characterised by volatility and this has led to unprecedented changes in the constituent companies of the FTSE Small Cap Index (excluding investment trusts). This was most acute in March when 20% of the index changed, with "new" economy growth stocks promoted to the mid 250 index and undervalued "old" economy demoted. The change coincided with the peak in the market and ABN Amro estimates that this enhanced the returns of the FTSE Small Cap Index (excluding investment trusts) by 8.2%. A more representative guide to the returns from the small company sector is the Hoare Govett Smaller Companies Index which produced a return of 14.8% over the financial year. Your company has performed well against both of these indices.

Portfolio

The approach to managing the portfolio has not altered since we assumed management of the company in April 1996. By adopting a balanced portfolio structure, we aim to deliver a consistent standard of performance to the investors. The portfolio is structured with a spine of 'blue chip' smaller companies, augmented by a combination of

Manager's Review

value investments and emerging growth companies. The quality of our stock selection will determine our success. The key criteria we seek in our investments are the quality and depth of management, the ability to generate real cash profitability and the company must display a "distinct competitive advantage". We are a long term investor and assess the valuation of our investments with a long term view.

Over the year, the company's success has been achieved by an above average exposure to the growth sectors. Strong performances have been achieved by technology orientated stocks such as BTG, Innovation Group, Imagination Technology and Azlan. The timing of investment in under-valued companies, such as Dawson International, John Laing and Savills, led to good returns. While takeover activity was less of a feature this year, the portfolio benefited from bids for two of its media companies: Border TV and Southnews. In any portfolio there will be disappointing performance from certain stocks. For a variety of reasons Headlam, Novara and Sherwood International underperformed.

Outlook

The small company market has recorded two very strong years and has recovered some of the relative performance it lost to large companies in the mid-nineties. In the small company universe, valuations are polarised between highly rated growth stocks and unfashionable undervalued companies. This results in a combination of potential opportunity and vulnerability which makes good stock selection of paramount importance.

The economic environment is stable and inflation is well under control. Interest rates have scope to fall during 2001 which should help to underpin economic confidence. Against this background, we would expect corporate activity to pick up and to see investors pay greater attention to fundamental value.

The technology revolution will continue to change all our lives. We can say with some certainty that technology will be a bigger constituent of the stock market in five years time. However, we believe Pareto's law will apply and 80% of the returns will come from 20% of the stocks. The number of casualties in the technology sector are set to increase as promises are no longer enough to sustain heady valuations.

In principle we continue to favour the growth sectors of the economy subject to the constraints of quality and valuation. Our priority over the next year will be to focus on sound analysis and good stock selection. Despite the uncertainties that prevail, the small company sector remains full of opportunity.

Edinburgh Fund Managers plc
12 December 2000

Distribution of Portfolio

at 31 October

	FTSE Small Cap Index (ex ITS) Weighting %	Portfolio weightings	
		2000 %	1999 %
Resources			
Oil & gas	2.04	2.03	1.72
	2.04	2.03	1.72
Basic industries			
Chemicals	2.72	1.37	2.30
Construction & building materials	10.14	7.45	7.54
	12.86	8.82	9.84
General industrials			
Aerospace & defence	1.15	1.95	1.69
Electronic & electrical equipment	2.82	2.93	0.81
Engineering & machinery	4.26	4.80	4.19
	8.23	9.68	6.69
Cyclical consumer goods			
Automobiles	1.32	0.26	0.84
Household goods & textiles	0.97	1.03	3.01
	2.29	1.29	3.85
Non cyclical consumer goods			
Beverages	0.64	—	1.26
Food producers & processors	3.30	2.26	1.28
Health	3.25	3.98	—
Packaging	0.60	0.07	0.55
Personal care & household products	0.90	—	—
Pharmaceuticals	2.70	—	0.58
	11.39	6.31	3.67
Cyclical services			
Distributors	3.58	5.01	6.99
General retailers	6.52	3.20	6.41
Leisure entertainment & hotels	4.95	3.89	6.92
Media & photography	6.01	11.21	7.40
Restaurants pubs & breweries	1.93	2.61	3.29
Support services	7.23	9.78	9.70
Transport	2.84	2.41	1.48
	33.06	38.11	42.19
Non cyclical services			
Food & drug retailers	1.85	—	0.70
Telecommunications services	0.73	—	—
	2.58	—	0.70
Utilities			
Water	0.41	—	—
	0.41	—	—
Information technology			
Information technology hardware	0.13	2.09	1.36
Software & computer services	10.89	16.18	9.63
	11.02	18.27	10.99
Financials			
Insurance	2.19	1.21	1.23
Life assurance	0.68	—	—
Investment companies	—	0.03	0.02
Real estate	8.75	5.87	7.39
Speciality & other finance	4.50	4.93	5.10
	16.12	12.04	13.74
Total equities	100.0	96.55	93.39
Net current assets	—	3.45	6.61
Total assets less current liabilities	100.0	100.0	100.0

List of Largest Investments

at 31 October 2000

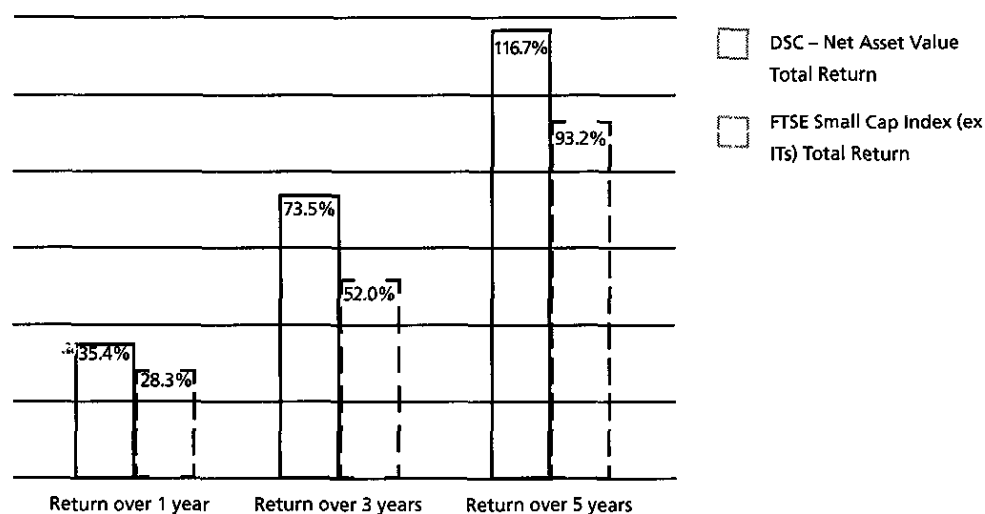
Company	Market Value £000	Sector Classification
The Innovation Group	4,397	Software and computer services
BTG	4,323	Support services
Azlan Group	3,054	Software and computer services
Incepta Group	2,698	Media and photography
Imagination Technology	2,672	Information technology hardware
Southnews	2,441	Media and photography
Sportsworld Media	2,180	Media and photography
Mowlem (John)	2,125	Construction and building materials
Britt Allcroft	2,017	Media and photography
Luminar	1,836	Restaurants, pubs and breweries
Ten Largest Investments	27,743	21.8% of total assets less current liabilities
Microgen	1,771	Software and computer services
Knowledge Support Systems	1,720	Software and computer services
Intermediate Capital Group	1,714	Speciality and other finance
Biocompatibles International	1,668	Health
GWR Group	1,620	Media and photography
Transense Technologies	1,575	Electronic and electrical equipment
Cox Insurance	1,548	Insurance
Wellington Holdings	1,540	Engineering and machinery
Tilbury Douglas	1,495	Support services
IDS Group	1,476	Software and computer services
Twenty Largest Investments	43,870	34.4% of total assets less current liabilities
Singer & Friedlander	1,467	Speciality and other finance
Wiggins Group	1,426	Construction and building materials
BPP Holdings	1,404	Support services
Sterling Publishing	1,394	Media and photography
Expro Intl. Group	1,376	Oil and gas
Freeport	1,375	Real estate
Derwent Valley	1,299	Real estate
Rutland Trust	1,295	Speciality and other finance
Bodycote International	1,294	Engineering and machinery
Menzies (John)	1,279	Distributors
Thirty Largest Investments	57,479	45.1% of total assets less current liabilities
Other investments represented by 96 holdings	65,709	51.5% of total assets less current liabilities
Total value of investments	123,188	96.6% of total assets less current liabilities
Net current assets	4,405	3.4% of total assets less current liabilities
Total assets less current liabilities	127,593	100% of total assets less current liabilities

Long Term Record

Year ended 31 October	Assets at valuation ⁽¹⁾ £000	Preference stock and other borrowings £000	Equity shareholders' funds £000	Revenue available for ordinary dividends £000	Net asset value per share p	Earnings per share p	Dividends per share p	Share price p
1990	42,413	425	41,988	2,030	249.9	12.08	12.0	227.0
1991	46,916	425	46,491	1,902	276.7	11.32	12.0	273.0
1992	37,518	425	37,093	1,821	220.8	10.84	12.0	219.0
1993	51,388	425	50,963	1,465	303.4	8.72	9.0	290.0
1994	57,933	5,000	52,933	1,506	315.1	8.96	9.0	306.0
1995	63,851	5,000	58,851	1,553	350.3	9.24	9.0	326.0
1996	72,614	5,000	67,714	1,602	402.5	9.54	9.0	346.0
1997	85,379	15,000	70,379	1,979	417.6	11.78	10.0	346.5
1998	75,136	15,000	60,136	2,463	356.6	14.67	11.9	292.0
1999	100,509	15,000	85,509	2,576	507.7	15.33	12.4	383.5
2000	127,708	15,000	112,708	2,510	673.7	14.97	12.9	520.0

⁽¹⁾ Total assets less current liabilities plus borrowings

Comparison of NAV Total Return Performance of Dunedin Smaller Companies (DSC) to FTSE Small Cap Index (ex investment trusts)



Source: AITC

Investment Changes

	Valuation at 31 October 1999 £000	Net purchases (sales) £000	Appreciation (depreciation) £000	Valuation at 31 October 2000 £000
United Kingdom	93,472	683	28,903	123,058
Overseas	196	—	(67)	129
Total investments	93,668	683	28,836	123,187

Comparison of Market Capitalisation

at 31 October 2000

Equity market capitalisation £m	Dunedin Smaller Companies Weighting %	FTSE Small Cap Index (excl investment trusts) Weighting %
0-100	24.5	13.7
100-200	21.0	28.8
200-300	16.5	31.5
300-400	10.7	19.6
400-500	10.2	5.5
500+	17.1	0.9
Total	100.0	100.0

Analysis of Shareholders

at 31 October

Registered Office

Belsize House
West Ferry
Dundee DD5 1NF
Telephone: 01382-778244

Manager and Secretary

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone: 0131-313 1000
Webste: www.edfd.com
Regulated by IMRO and
the Personal Investment Authority

Registrar

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

Banker

Bank of New York Europe
67 Lombard Street
London EC3P 3DL

Auditors

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

Company Broker

Deutsche Bank

Company Registration Number

SC 14692

Board of Directors

The Earl of Dalhousie

Chairman

The Earl of Dalhousie (52), appointed on 1 November 1993, is a founder of Enskilda Securities and was a director of Capel-Cure Myers Capital Management. He is chairman of Jamestown Investments.

R M Entwistle

Director

R M Entwistle (56), appointed on 18 December 1998, is managing director of Adam & Company and is a fellow of the Chartered Institute of Bankers.

the board

M G N Walker

Director

M G N Walker CBE (67), appointed on 24 March 1982, is chairman of Ivory & Sime UK Smaller Companies Trust. He was a director of Sidlaw Group and of Scottish Hydro Electric.

N M Yarrow

Director

N M Yarrow CA (40), appointed on 21 May 1998, is a director of Northern Venture Managers which is a subsidiary of Edinburgh Fund Managers.

All directors are members of the Audit and Management Engagement Committee

Business and status

The company carries on business as an investment trust and, for the purpose of the Income and Corporation Taxes Act 1988, has been treated by the Inland Revenue as approved as such for the year ended 31 October 1998 but not yet for the year ended 31 October 1999. With the introduction of Corporation Tax Self Assessment, the Inland Revenue is not able to confirm investment trust status until at least 12 months after the date of filing. The company has subsequently conducted its affairs so as to enable it to continue to seek such approval.

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

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

Review of activities

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

Share capital

During the year the company bought back 100,000 ordinary shares (nominal value of £25,000 being 0.6% of the issued share capital) on the London Stock Exchange for cancellation. The total consideration for these shares was £470,000. No further buybacks have been made since 31 October 2000.

The company under the existing authority may, depending on circumstances, buy back a further 2,418,320 ordinary shares prior to the annual general meeting. The principal purpose of such purchases is to address the imbalance between the supply and demand for the company's ordinary shares and thereby reduce the discount at which the shares trade in relation to the underlying net asset value. Since the purchase was made at a price below the net asset value, the net asset value was enhanced.

Dividends

The directors recommend that a final dividend of 8.9p (1999–8.4p) is paid on 9 February 2001 to shareholders on the register on 3 January 2001. The directors propose that the company's revenue surplus for the year of £352,000 (1999–£493,000) be transferred to the revenue reserve. The ex-dividend date is 27 December 2000.

Directors

In accordance with the articles of association, Norman Yarrow retires from the board by rotation and will be proposed for re-election at the annual general meeting.

The names of the directors and their holdings in the company's shares are shown in Table 1 below. The company has not been notified of any changes in the holdings between 31 October 2000 and 12 December 2000.

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

Payments Policy

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

	Ordinary 25p shares		Nature of interest
	31.10.00	31.10.99	
The Earl of Dalhousie	4,000	4,000	Beneficial
R M Entwistle	2,000	2,000	Beneficial
M G N Walker	2,000	2,000	Beneficial
N M Yarrow	4,000	4,000	Beneficial

Table 1 Directors and their holdings in the company

Directors' Report

Corporate Governance

Compliance

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

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

Directors

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

Synopses of the board members appear on page 12 of the annual report. Each director has the requisite high level and range of business and financial experience which enables the board to provide clear and effective leadership and proper stewardship of the company. The senior independent director is Mr Walker.

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

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

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

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

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

Relations with shareholders

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

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

Proxy voting as an institutional shareholder

The manager has the right to vote on behalf of the company if they believe it is appropriate.

Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements appear on pages 16 and 17.

Internal control

The company has adopted the transitional approach for the Combined Code set out in the letter from the London Stock Exchange to listed companies at the end of September 1999 and reports as follows:

The board confirms that as at 31 October 2000 it had established the procedures necessary to implement the guidance, Internal Control: 'Guidance for Directors on the Combined Code' and a full risk and control assessment has been performed. The board will continue to consider risk management and internal control on a regular basis.

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

The manager operates control policies and procedures to safeguard the assets of the company and to manage its affairs properly. The system also extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the board and the manager and regular reports on controls and compliance issues are provided to the board. In carrying out its review, the board has had regard to the activities of the manager, the manager's internal audit function and the external auditors.

The directors have reviewed the effectiveness of the system of internal financial controls which has been in operation during the year. Any system of internal

financial control can only provide reasonable and not absolute assurance of meeting the internal financial control objective.

The directors have appointed an audit and management engagement committee, chaired by Mr Yarrow. The committee considers reports from the external auditors, as well as from the manager. The scope and effectiveness of the external audit is also kept under review. The independence and objectivity of the external auditors is also considered on a regular basis with particular regard to the level of non-audit fees.

Going concern

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

Corporate Governance and

Socially Responsible Investment Policy

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

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

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

Auditors

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

Directors' Report

Substantial share interests

At 12 December 2000 the substantial interests in the ordinary share capital which had been notified to the company are shown in Table 2.

Holder	No of ordinary shares	%
Edinburgh Fund Managers Group plc*	2,421,635	14.5
Royal London Asset Management	1,650,000	9.8
Derbyshire County Council	700,000	4.2
DC Thomson & Company Ltd	580,000	3.5
AXA Sun Life Investment Management	531,582	3.2

Table 2 Substantial share interests

* non-beneficial interest

Annual general meeting – special business

At the annual general meeting of the company to be held on 8 February 2001, the following resolution will be proposed:

- Special resolution 6 will be proposed to authorise the company to make market purchases of its own shares. This authority, if conferred, will only be exercised if to do so would enhance the net asset value and is in the best interests of shareholders generally.

Valerie Mackenzie

By order of the board,

Edinburgh Fund Managers plc

Secretary

Edinburgh, 12 December 2000

Statement of Directors' Responsibilities

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

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

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

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

To the members of Dunedin Smaller Companies Investment Trust PLC

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

Respective responsibilities of directors and auditors

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

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

We review whether the statement on pages 14 and 15 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 October 2000 and of the return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc

Chartered Accountants

Registered Auditor

Edinburgh, 12 December 2000

Statement of Total Return

for the year ended 31 October

	Notes	Revenue £000	2000 Capital £000	Total £000	Revenue £000	1999 Capital £000	Total £000
Realised gains on investments	14	—	23,677	23,677	—	7,738	7,738
Unrealised gains on investments	15	—	5,159	5,159	—	18,410	18,410
Currency losses	14	—	—	—	—	(4)	(4)
Income from investments	2	2,699	—	2,699	2,739	—	2,739
Interest receivable							
on short term deposits		491	—	491	453	—	453
Other income		36	—	36	43	—	43
Investment management fee	3/14	(136)	(569)	(705)	(104)	(311)	(415)
Other administrative expenses	4	(264)	—	(264)	(234)	(4)	(238)
<hr/>							
NET RETURN BEFORE							
FINANCE COSTS AND TAXATION		2,826	28,267	31,093	2,897	25,829	28,726
Interest payable							
and similar charges	5	(316)	(949)	(1,265)	(321)	(949)	(1,270)
<hr/>							
RETURN ON ORDINARY ACTIVITIES							
BEFORE TAXATION		2,510	27,318	29,828	2,576	24,880	27,456
Taxation	6	—	—	—	—	—	—
<hr/>							
RETURN ON ORDINARY ACTIVITIES							
AFTER TAXATION		2,510	27,318	29,828	2,576	24,880	27,456
Dividends in respect of equity shares	7	(2,158)	—	(2,158)	(2,083)	—	(2,083)
		352	27,318	27,670	493	24,880	25,373
<hr/>							
RETURN PER ORDINARY SHARE	8	14.97p	162.91p	177.88p	15.33p	148.10p	163.43p
<hr/>							

The revenue column of this statement represents the revenue account of the company.
All revenue and capital items in the above statement derive from continuing operations.

Balance Sheet

at 31 October

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Investments	9	123,187	93,668
CURRENT ASSETS			
Debtors	10	472	1,464
UK Treasury Bills		4,929	4,958
Cash and short term deposits	20	2,328	3,076
		<u>7,729</u>	<u>9,498</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	11	<u>(3,408)</u>	<u>(2,866)</u>
NET CURRENT ASSETS		<u>4,321</u>	<u>6,632</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>127,508</u>	<u>100,300</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	12	<u>(14,800)</u>	<u>(14,791)</u>
		<u>112,708</u>	<u>85,509</u>
CAPITAL AND RESERVES			
Called up share capital – equity	13	4,175	4,200
Capital reserve – realised	14	93,829	72,141
Capital reserve – unrealised	15	11,885	6,726
Capital redemption reserve	16	450	425
Revenue reserve	17	2,369	2,017
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>112,708</u>	<u>85,509</u>
NET ASSET VALUE PER ORDINARY SHARE	22	<u>673.71p</u>	<u>507.74p</u>

The financial statements on pages 18 to 28 were approved by the board on 12 December 2000 and were signed on its behalf by:

THE EARL OF DALHOUSIE, Director

Dalhousie.

Cashflow Statement

for the year ended 31 October

	Notes	2000 £000	1999 £000
NET CASH INFLOW			
FROM OPERATING ACTIVITIES	18	2,609	2,343
SERVICING OF FINANCE			
Interest paid		(1,256)	(1,261)
NET CASH OUTFLOW			
FROM SERVICING OF FINANCE		(1,256)	(1,261)
TAXATION			
UK tax paid		—	(126)
TOTAL TAX PAID		—	(126)
FINANCIAL INVESTMENT			
Purchase of investments		(62,903)	(41,258)
Sale of investments		63,327	41,082
NET CASH INFLOW/(OUTFLOW)			
FROM FINANCIAL INVESTMENT		424	(176)
EQUITY DIVIDENDS PAID		(2,083)	(2,083)
NET CASH OUTFLOW BEFORE FINANCING		(306)	(1,303)
NET CASH INFLOW/(OUTFLOW) FROM			
MANAGEMENT OF LIQUID RESOURCES	21	29	(38)
FINANCING			
Buyback of ordinary shares		(471)	—
DECREASE IN CASH	21	(748)	(1,341)

31/10/00

1 Accounting policies

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

(a) *Revenue, expenses and interest payable – Income from equity investments, including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Foreign income is converted at the exchange rate applicable at the time of receipt. Franked investment income is reported net of tax credits in accordance with Financial Reporting Standard 16 'Current Tax' ('FRS 16'). The figures for 1999 have been restated accordingly. FRS 16 has had no effect on the total return for both the prior and current year. Interest receivable on fixed interest securities, short term deposits, expenses and interest payable are treated on an accruals basis.*

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

(b) *Investments – Listed investments are valued at market prices, foreign currencies being converted at the rates of exchange ruling at the relevant balance sheet date. Unlisted investments are valued by the directors taking account of latest dealing prices, brokers' valuations and other available accounting information as appropriate.*

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

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

(e) *Taxation – Deferred taxation is provided on all timing differences to the extent that liabilities are likely to arise in the foreseeable future.*

	2000		1999 (restated)	
	Franked £000	Unfranked £000	Franked £000	Unfranked £000
Dividends				
Listed: United Kingdom	2,698	—	2,657	77
Unlisted: Overseas	—	1	—	5
	<u>2,698</u>	<u>1</u>	<u>2,657</u>	<u>82</u>
Total investment income	<u>2,699</u>		<u>2,739</u>	

Notes to the Accounts

	2000 £000	1999 £000
3 Investment management fee		
Investment management fee (including irrecoverable VAT)	705	415
Charged against capital reserve – realised	(569)	(311)
	<u>136</u>	<u>104</u>

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

In addition and with effect from from 1 August 2000 Edinburgh Fund Managers plc is entitled to a performance-related management fee calculated quarterly in arrears, at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1% by which the company’s net asset value performance outperforms the capital performance of the FTSE Small Cap Index (ex investment trusts) over the twelve month period. The investment management fee includes the performance related fee earned during the year of £159,000.

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

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

4 Administrative expenses		
Secretarial fees	54	53
Directors’ fees	36	34
Investment trust initiative	19	19
Registrar’s fees	23	22
‘its’ marketing campaign	44	19
Irrecoverable VAT	24	24
Other expenses	64	63
	<u>264</u>	<u>234</u>

The secretarial fee of £54,000 (1999-£53,000) is paid to Edinburgh Fund Managers plc. A contribution of £19,000 (1999-£19,000) was paid to Edinburgh Fund Managers plc in respect of marketing and promotion of the company through their Investment Trust Initiative.

The chairman who was the highest paid director received £10,833 (1999-£10,000). The emoluments of the other directors were £8,333 each (1999-£7,500).

Auditor’s remuneration amounted to £5,850 (1999-£5,675). Remuneration paid to the auditors for non-audit services relating to the auditors’ review of the interim accounts amounted to £1,600 (1999-£1,100).

Notes to the Accounts

	2000 £000	1999 £000
5 Interest payable and similar charges		
Bank overdraft	—	5
8.375% debenture stock interest	1,256	1,256
Amortised debenture stock premium and issue expenses	9	9
	1,265	1,270
Charged against capital reserve – realised	(949)	(949)
	316	321

6 Taxation

Tax credits attributable to franked investment income

— —

There is no overall deferred taxation liability.

Financial Reporting Standard 16 ‘Current Tax’ changes the way in which tax credits attributed to recipients of dividends from UK companies are presented in financial statements. Such dividends are now reported net of the tax credits £300,000 (1999-£352,000) and therefore the 1999 figures have been restated.

7 Dividends

Interim dividend of 4.0p (1999-4.0p) paid 14 July 2000	672	672
Final dividend of 8.9p (1999-8.4p) payable 9 February 2001	1,486	1,411
	2,158	2,083

8 Return per ordinary share

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

	2000	1999
Revenue return	£2,510,000	£2,576,000
Capital return	£27,318,000	£24,880,000
Weighted average number of ordinary shares in issue	16,767,945	16,800,000

9 Investments

	Listed in UK £000	Unlisted £000	Total £000
Valuation at 31 October 1999	93,447	221	93,668
Unrealised appreciation at 31 October 1999	(6,592)	(134)	(6,726)
Book cost at 31 October 1999	86,855	87	86,942
Additions at cost	63,079	—	63,079
Disposals at cost	(38,719)	—	(38,719)
Book cost at 31 October 2000	111,215	87	111,302
Unrealised appreciation at 31 October 2000	11,807	78	11,885
Valuation at 31 October 2000	123,022	165	123,187

Notes to the Accounts

	2000 £000	1999 £000
10 Debtors		
Accrued income	388	642
Amounts due from brokers	78	795
Other debtors	6	27
	<u>472</u>	<u>1,464</u>

11 Creditors: amounts falling due within one year		
Amounts due to brokers	956	780
Debenture interest	611	611
Other creditors	355	64
Final dividend	1,486	1,411
	<u>3,408</u>	<u>2,866</u>

12 Creditors: amounts falling due after one year		
Repayable after more than 5 years:		
8.375% debenture stock 2022	15,000	15,000
Unamortised debenture stock premium and issue expenses	(200)	(209)
	<u>14,800</u>	<u>14,791</u>

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

The market value of the debenture stock as at 31 October 2000 was £18,712,500 (1999-£19,425,000). The effect on the net asset value of deducting the debenture stock at market value rather than at par is disclosed in note 22.

13 Called up share capital		
Authorised:		
20,800,000 (1999-20,800,000) ordinary shares of 25p each	<u>5,200</u>	<u>5,200</u>
Issued and fully paid:		
16,700,000 (1999-16,800,000) ordinary shares of 25p each	<u>4,175</u>	<u>4,200</u>

During the year, the company repurchased, and subsequently cancelled, 100,000 ordinary shares at a cost of £471,000. This represented 0.59% of the company's issued ordinary share capital and reduced the number of ordinary shares in issue from 16,800,000 to 16,700,000.

Notes to the Accounts

	2000 £000	1999 £000
14 Capital reserve – realised		
Balance at 31 October 1999	72,141	65,671
Realised net gain on investments	23,677	7,738
Debenture stock interest	(942)	(942)
Amortised debenture stock premium and issue expenses	(7)	(7)
Management fee	(410)	(311)
Performance fee	(159)	—
Foreign exchange losses during year	—	(4)
Legal fees re repurchase of own shares	—	(4)
Cost of ordinary shares repurchased	(471)	—
Balance at 31 October 2000	93,829	72,141

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

15 Capital reserve – unrealised		
Balance at 31 October 1999	6,726	(11,684)
Increase on revaluation of investments	5,159	18,410
Balance at 31 October 2000	11,885	6,726

16 Capital redemption reserve		
Balance at 31 October 1999	425	425
Transfer from called up share capital arising from the buy back of ordinary shares (see note 13)	25	—
Balance at 31 October 2000	450	425

17 Revenue reserve		
Balance at 31 October 1999	2,017	1,524
Transferred from revenue account	352	493
Balance at 31 October 2000	2,369	2,017

Notes to the Accounts

2000
£000

1999
£000

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

Revenue before interest and taxation	2,826	2,897
Decrease/(increase) in accrued income	59	(239)
Decrease/(increase) in other debtors	2	(13)
Increase in creditors	291	13
Management fee charged to capital	(410)	(311)
Performance fee charged to capital	(159)	—
Accrued legal fees charged to capital	—	(4)
	<u>2,609</u>	<u>2,343</u>

19 Analysis of changes in financing during the year

	2000 Equity share capital £000	Debentures & loans £000	1999 Equity share capital £000	Debentures & loans £000
Balance at 31 October 1999	4,200	14,791	4,200	14,782
Share buybacks	(25)	—	—	—
Amortisation of premium and expenses of issue	—	9	—	9
Balance at 31 October 2000	<u>4,175</u>	<u>14,800</u>	<u>4,200</u>	<u>14,791</u>

2000
£000

1999
£000

20 Analysis of changes in cash during the year

Balance at 31 October 1999	3,076	4,421
Net cash outflow	(748)	(1,341)
Effect of foreign exchange rate movements	—	(4)
Balance at 31 October 2000	<u>2,328</u>	<u>3,076</u>

21 Analysis of changes in net debt

	Balance at 31 October 1999 £000	Cash flows £000	Amortisation of issue expenses and premium £000	Balance at 31 October 2000 £000
Cash and short term deposits	3,076	(748)	—	2,328
UK Treasury Bills	4,958	(29)	—	4,929
Debt due after more than one year	(14,791)	—	(9)	(14,800)
Net debt	<u>(6,757)</u>	<u>(777)</u>	<u>(9)</u>	<u>(7,543)</u>

22 Net asset value per share

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

A reconciliation between the two sets of figures is given below:-

	2000	1999
Total shareholders' funds	£112,708,000	£85,509,000
Adjusted net assets	£112,508,000	£85,300,000
Number of equity shares in issue at year end	16,700,000	16,800,000
 Total shareholders' funds per share	 674.90p	 508.98p
Less: Unamortised debenture stock premium and issue expenses	(1.19p)	(1.24p)
Adjusted net asset value per share	<u>673.71p</u>	<u>507.74p</u>
	2000	1999
	£000	£000

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

Adjusted net assets at 31 October 1999	85,300	59,918
Total recognised capital gains for the year	27,318	24,880
Revenue return for the year	2,510	2,576
Dividends appropriated in the year	(2,158)	(2,083)
Movement in unamortised debenture stock premium and issue expenses	9	9
Share buybacks	(471)	—
Adjusted net assets at 31 October 2000	<u>112,508</u>	<u>85,300</u>

The net asset value adjusted to include the debenture stocks at market value rather than at par is 651.47p (1999-481.40p)

23 Reconciliation of movement in equity shareholders' funds

Equity shareholders' funds at 31 October 1999	85,509	60,136
Total recognised capital gains for the year	27,318	24,880
Net revenue for the year	352	493
Share buybacks	(471)	—
Equity shareholders' funds at 31 October 2000	<u>112,708</u>	<u>85,509</u>

Notes to the Accounts

24 Commitments and contingencies

There are placing commitments of £1,385,000 (1999-£170,000).

25 Risk management, financial assets and liabilities

Risk management

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

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

All of the company's long term debt is fixed rate which exposes the company to changes in market value in the event that the debt is repaid before maturity. The debenture stocks in issue provide secure long term funding while short term flexibility is achieved through overdraft facilities. Information on the debenture stock is provided in note 12.

Financial assets and liabilities

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

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

At the balance sheet date the company held nil coupon UK treasury bill with market values of £4,929,000 which matured on 11 December 2000. Cash and short term deposits are held in floating rate accounts.

Notice of Meeting

Notice is hereby given that the seventy third annual general meeting of Dunedin Smaller Companies Investment Trust PLC will be held at Belsize House, West Ferry, Dundee on Thursday 8 February 2001 at 12 noon, for the following purposes:

ORDINARY BUSINESS

1. To receive the Report of the Directors and the Accounts for the year to 31 October 2000;
2. To declare a final dividend of 8.9p on the ordinary shares;
3. To re-elect Norman Yarrow as a director of the company;
4. To re-appoint KPMG Audit Plc as auditor of the company;
5. To authorise the directors to fix the remuneration of the auditors for the year to 31 October 2001.

SPECIAL BUSINESS

To consider and, if thought fit, to pass Resolution 6 as a special resolution.

Special Resolution

6. That the company be and it is hereby authorised in accordance with section 166 of the Act to make purchases (within the meaning of section 163 of the Act) of ordinary shares of 25p each in the company ('shares') provided that:
 - (i) the maximum number of shares hereby authorised to be purchased is 14.99% of the issued share capital of the company as at the date of the passing of this resolution;
 - (ii) the minimum price which may be paid for a share shall be 25p;
 - (iii) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and

- (iv) unless renewed, the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company to be held in 2002 save that the company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

Valerie Macdonald

By order of the board

Edinburgh Fund Managers plc

Secretary

23 December 2000

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

Notes:

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

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

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

Financial Calendar

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


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

January – Annual report and accounts published.

February – Annual General Meeting and final dividend paid.

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

This year's Annual General Meeting will be held in Belsize House, West Ferry, Dundee on Thursday 8 February 2001 at 12 noon.

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

EDINBURGH FUND MANAGERS

Edinburgh Fund Managers plc was formally established in 1969 and has grown steadily since that time now with offices in Edinburgh, Dundee, Canada and North America. Today Edinburgh Fund Managers is one of the largest managers of investment trusts in the UK with over £4.2 billion of funds under management as at 31 October 2000. Total assets managed by the group at the same date were over £8.6 billion.

Investment Trusts

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

HOW TO INVEST

Ordinary shares

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

PRODUCT DETAILS

InvestIT – The Edinburgh Fund Managers Investment Trust Savings Plan

InvestIT provides a straightforward way to invest in Dunedin Smaller Companies Investment Trust and other investment trusts managed by Edinburgh Fund Managers. Investors can make regular monthly payments (minimum £30 per month) or invest occasional lump sums (minimum £250 initially and £30 thereafter). Existing shareholders can also invest in the Plan and have their dividends reinvested. There is no charge for buying or holding shares through InvestIT other than 0.5% Government Stamp Duty which is currently payable on all share purchases. There is a nominal £10 + VAT transaction fee applied to all sales.

Edinburgh Fund Managers

Investment Trust ISA/PEP

ISA

The Edinburgh Fund Managers Investment Trust Individual Savings Account (ISA) is a tax efficient savings vehicle. There are two types of ISAs available, a Maxi and a Mini. A Maxi ISA allows investors to maximise the amounts placed in stocks and shares. Investors will have the opportunity to invest up to £7,000 in the tax year 2000/2001 in Dunedin Smaller Companies Investment Trust where they take out a Maxi ISA.

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

PEP

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

The Edinburgh Fund Managers

Investment Trust Pension

The Investment Trust Pension enables investors to save for retirement by investing in Dunedin Smaller Companies Investment Trust. The Investment Trust Pension offers the choice of a Personal Pension Plan or a Free Standing Additional Voluntary Contributions Plan. Contributions can be made monthly, yearly or by lump sums, and there are low minimum investment amounts.

Information for Investors

Note

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

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

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

Keeping you informed

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

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

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

For information concerning your shareholding, please contact:

Registrar

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

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

Support Desk

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

InvestIT Administrator

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

Individual Savings Account/Personal Equity Plan Administrator

Cogent Investment Operations Limited
PEP/ISA Administrator
3 Finsbury Avenue
London EC2M 2PA
Telephone: 0800-028 6789

Pension Administrator

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

Head Office

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