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# Dunedin Smaller Companies Investment Trust PLC

Annual Report and Accounts  
31 October 2007

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in Dunedin Smaller Companies Investment Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

## Financial Highlights

	2007	2006
Net asset value capital return <sup>A</sup>	<b>+7.8%</b>	<b>+33.7%</b>
Dividend per share	<b>+19.7%</b>	<b>+15.3%</b>
Share price	<b>-1.4%</b>	<b>+44.6%</b>

<sup>A</sup> With debt at market value

Net Asset Value per share with  
debt at market value  
At 31 October 2007 – pence

Dividends per share  
pence

Share price  
At 31 October 2007 – pence

The figures in the years 2003 to 2006 in the charts above have been restated to reflect the sub division of the ordinary 25p shares into five ordinary 5p shares in November 2006

## Financial Calendar

<b>14 December 2007</b>	Announcement of results for year ended 31 October 2007
<b>7 February 2008</b>	Annual General Meeting
<b>11 February 2008</b>	Final ordinary dividend payable for year ended 31 October 2007
<b>June 2008</b>	Announcement of interim results for six months ending 30 April 2008
<b>July 2008</b>	Interim ordinary dividend payable for year ending 31 October 2008

# Corporate Summary

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## The Company

The Company is an investment trust and its shares are listed on the London Stock Exchange. The Company aims to attract long term private and institutional investors wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust.

## Manager

Aberdeen Asset Managers Limited ("AAM")

## Investment Objective

The achievement of long term growth from a portfolio of smaller companies in the United Kingdom.

## Benchmark

FTSE SmallCap Index (excluding Investment Companies)

## Investment Policy and Approach

The Company maintains a diversified portfolio of investments, typically comprising in the region of 60 to 90 holdings (but without restricting the Company from holding a more or less concentrated portfolio from time to time). The Company is unconstrained as to the market sectors in which it may invest.

The Company invests primarily in the equity securities of UK smaller companies with an emphasis on investing in quality companies with good management, strong cash flow, a sound balance sheet and the prospect of dividend growth.

The Company does not typically acquire securities that are unquoted or unlisted at the time of investment (with the exception of securities which are about to be listed or traded on a stock exchange). However, the Company may continue to hold securities that cease to be quoted or listed if the Manager considers this to be appropriate.

As a result of the publication of the Investment Entities (Listing Rules and Conduct of Business) Instrument 2003 the Board stated that it is the Company's policy to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

The Company complies with section 842 of the Income and Corporation Taxes Act 1988 and does not invest more than 15% of its assets in the shares of any one company.

## Investment Process

The Manager believes that, over the long term, share prices reflect underlying business fundamentals. A bottom up process is followed which is based on a disciplined evaluation of companies through direct visits.

Company selection is the major source of added value. New investments are not made without the Manager having first met management of the investee company, undertaken further analysis and written detailed notes to outline the underlying investment merits. A company's value is estimated in two stages, quality then price. Quality is defined with reference to management, business focus, balance sheet and corporate governance. Price is calculated relative to key financial ratios and business prospects. The Manager believes that risk should be considered in the context of investing in poor quality companies and/or overpaying, rather than relative to a benchmark, hence, great emphasis is placed on understanding the business and understanding how it should be valued.

Top down factors are secondary in the Manager's portfolio construction, with diversification rather than formal controls guiding stock and sector weightings. The Manager's portfolios are generally run conservatively, with an emphasis on traditional buy and hold, top slicing/topping up being preferred to outright trading and this approach results in low turnover within portfolios. Typically, investee companies have a higher return on equity/assets and lower debt to equity than the market averages.

Portfolios are managed by the Manager on a team basis, with individual investment managers carrying out their own research and analysis. Each investment desk has a model portfolio that contains its best ideas, and forms the basis for portfolios, both retail and institutional. All ideas are shared via formal committees and common databases, with desk heads and the Chief Investment Officer ensuring there is consistency across portfolios. The investment process and risk controls employed by the Manager are further disclosed on page 15.

## Capital Structure

As at 31 October 2007, the Company has a capital structure comprising ordinary shares of 5p and subscription shares of 0.001p. The Company has a £15 million 3 year revolving credit facility (£10 million drawn down as at 14 December 2007). The £15 million 8.375% Debenture Stock was repaid on 1 December 2006.

## Gearing

The Board is responsible for determining the gearing policy of the Company. The current guidelines from the Board authorise the Manager to invest up to £10 million of borrowings without reference to the Board.

## Total Assets and Net Asset Value

The Company had total assets of £92.4 million and a net asset value of 166.97p per ordinary share at 31 October 2007.

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### Market Capitalisation

The Company had a market capitalisation of £70.3 million at 31 October 2007

### Websites

[www.dunedin-smaller.co.uk](http://www.dunedin-smaller.co.uk)  
[www.aberdeen-asset.com](http://www.aberdeen-asset.com)

### Company Secretary

Aberdeen Asset Management PLC, Donaldson House, 97  
Haymarket Terrace, Edinburgh EH12 5HD  
Email: [companysecretary@invtrusts.co.uk](mailto:companysecretary@invtrusts.co.uk)

### Customer Services

Email: [invtrusts@aberdeen-asset.com](mailto:invtrusts@aberdeen-asset.com)

### Risk

Managing a portfolio of shares in smaller companies necessarily involves certain risks, the more important of which are set out on pages 18 and 38 of this Report

The Company has the ability to utilise gearing in the form of a 3 year revolving credit facility. Gearing has the effect of accentuating market falls and market gains

### Duration

The Company does not have a fixed life

### Share Dealing/PEP/ISA Status

Shares in Dunedin Smaller Companies Investment Trust PLC can be bought in the open market through a stockbroker. Shares can also be purchased through the Investment Trust Share Plan and the Investment Trust ISA and PEP and are fully qualifying for inclusion within tax efficient ISA wrappers (see page 41)

### Management and Secretarial Agreements

The Company has an agreement with AAM for the provision of management services, details of which are shown in note 3 to the financial statements. 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 (a performance fee of £200,000 was earned in respect of the year ended 31 October 2007). The agreement is normally terminable by either party on three months' notice.

The Company has an agreement with AAM for the provision of administrative and secretarial services, details of which are shown in note 4 to the financial statements

The terms and conditions of the Manager's appointment, including an evaluation of performance and fees, are reviewed by the Management Engagement Committee on an annual basis. The Committee believes that the continuing appointment of the Manager, on the terms agreed, is in the interests of shareholders as a whole. Further details are provided in the Chairman's Statement.

### AIC

The Company is a member of the Association of Investment Companies

# Chairman's Statement

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**The Earl of Dalhousie**  
Chairman

The smaller company sector started the year strongly but, as markets became more volatile during the summer months, gave back much of the earlier gains and over the year lagged behind the broader equity markets. The Company's net asset value per share (with borrowings at market value) rose by 7.8% compared to increases of 2.2% in the FTSE SmallCap Index (excluding Investment Companies) and 9.7% in the FTSE 100 Index. The Company's share price fell by 1.4% to 142.50p. The subscription shares which are listed on the London Stock Exchange had a closing price of 19.50p per share at 31 October 2007.

Revenue return per share for the year increased from 3.84p to 4.47p and the Board is pleased to announce that it is recommending a final dividend of 2.50p which will be paid on 11 February 2008 to shareholders on the register on 18 January 2008. When combined with the interim dividend of 1.75p, the total dividend for the year will amount to 4.25p, an increase of 19.7%.

During the year, the Company repurchased in the market 7,642,556 ordinary shares, at discounts of between 8% and 17%, at a total cost of £11.9 million. The Directors intend to continue to utilise the Company's share buyback powers to enhance NAV for continuing shareholders.

As outlined in last year's annual report and the circular to shareholders, the Company implemented a number of changes, following shareholder approval, which were aimed at building on the Company's existing qualities and to enhance its appeal to its target investor base, as well as providing shareholders with the opportunity to realise at least part of their investment. The specific actions that have been implemented since 31 October 2006 are shown in note 13 to the annual report.

Following the implementation of these changes, the Company's objective of delivering long term growth from a portfolio of small companies in the UK remains unchanged and the performance benchmark continues to be the FTSE SmallCap Index (excluding Investment Companies). The Directors however have reinforced the Company's differentiating factors from its peer group by placing more emphasis on total returns to shareholders. The yield on the Company's portfolio has been increased by selling some of its nil and low yielding stocks although the overall portfolio continues to focus on companies with strong balance sheets, positive cash flows and the potential to grow dividends to shareholders.

This strategy is intended to enable the Company to increase income from its investments and to grow the dividends paid on the ordinary shares over time but without creating a negative impact upon the Company's ability to deliver capital growth. The Company is one of the highest yielding

companies in its peer group and the Directors believe that increasing the dividend income will further differentiate the Company and attract a broader range of long term private and institutional investors who want to benefit from the growth prospects of smaller companies by investing in a relatively risk averse investment trust with the additional benefit of an above average dividend yield

Our investment portfolio has continued to deliver good returns over the year and out performed the benchmark by over 5%. The combination of this out performance and the uplift to NAV from buying back the Company's shares has enabled the Company to more than offset the costs that were incurred to repay the Debenture Stock and implement the changes referred to above

Since the year end, equity markets have fallen, with the share prices of the smaller company sector in the UK being particularly affected. The FTSE SmallCap Index (excluding Investment Companies) has fallen by 16.3% and the Company's NAV has fallen by 15.0% in the period from 31 October 2007 to 12 December 2007

#### VAT on Management Fees

In 2004, the Association of Investment Companies (AIC) and JPM Claverhouse Investment Trust plc launched a case against HM Revenue & Customs (HMRC) in which they claimed that management fees charged to UK investment trusts should be exempt from VAT. On 28 June 2007, the European Court of Justice found in favour of the AIC/Claverhouse case in respect of the specific questions referred to it by the UK VAT Tribunal. HMRC accepted this judgement in November. Your Company has taken *appropriate steps to reclaim the relevant VAT that has been paid on management fees* but we have not recognised any asset in the financial statements as the amounts are not yet quantifiable.

#### Corporate Governance

The Board reviews annually the performance of the Manager, the Chairman and the Board as a whole. The Board has assessed the performance of the Manager, the investment process and risk controls. The portfolio is delivering capital appreciation, has out performed the benchmark and produced higher dividend income to shareholders. The Directors have reviewed the terms of the management agreement and believe that the continuing appointment of the Manager is in the interests of shareholders. The management agreement, however, has been transferred under a novation agreement from Edinburgh Fund Managers plc, a wholly owned subsidiary of Aberdeen Asset Management PLC, to Aberdeen Asset Managers Limited, also a wholly owned subsidiary of Aberdeen Asset Management

PLC. There have been no changes to the terms of the agreement following the transfer.

#### Annual General Meeting

The Annual General Meeting this year will be held at The Balmoral Hotel, 1 Princes Street, Edinburgh on 7 February 2008 at 12.00 noon. In addition to the formal business of the meeting, our portfolio manager, Ed Beal, will provide an update on the outlook for smaller companies and there will also be an opportunity for shareholders to meet informally with the Directors at the conclusion of the AGM.

#### The Earl of Dalhousie

Chairman

14 December 2007

# Manager's Review

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The smaller company sector experienced more difficult conditions than those witnessed in recent years although the Company has delivered absolute gains and has outperformed the index. The net asset value per share (with debt at market value) increased by 7.8% over the year compared to a rise in the benchmark of 2.2%. The main reason for the out performance was stock selection.

## Market Background

The year started strongly following the trend of the previous three years. Interest rates had been increased in November 2006 but the market had taken this in its stride. The first six months of the year saw the performance of smaller companies continue in the same vein as in recent years. Merger and acquisition activity continued apace, albeit moving further up the market capitalisation scale. This was accompanied by asset allocation decisions by institutional investors to reduce their exposure to smaller companies in favour of larger companies.

In January, the market was surprised by an increase in interest rates, the first move outwith the Bank of England's monthly Inflation Report in over two years. This was followed by further weakness during February triggered by increasing concerns about the US sub prime lending markets and the sustainability of the Yen carry trade. The March reporting season was generally positive, though it became increasingly apparent that expectations for growth in corporate profitability were being reined in. Equity markets however recovered and continued to rise for the next three months.

May witnessed a further increase in base rates as the Monetary Policy Committee focussed on the risks of higher inflation following the surprise news that the Consumer Price Index (CPI) had breached three per cent in March. This resulted in the Governor of the Bank of England having to write an explanatory letter to the Chancellor of the Exchequer. The benchmark reached an all time high in early June.

The subsequent period was characterised by a sudden and marked reduction in investor appetite for risk. This was driven by the developing crisis in the US collateralised debt obligation (CDO) and sub prime mortgage markets. Liquidity evaporated, equity markets fell and merger and acquisition activity came to an almost complete halt. Interest rates were increased by a further 25 basis points in July. The US Federal Reserve and European Central Bank both took steps to inject liquidity into the markets and this served to calm nerves though credit markets remained very tight. The oil price continued its inexorable rise and the US dollar fell to levels not seen for decades. There was an increase in the number of profit warnings amongst smaller companies and,

increasingly, US dollar weakness was highlighted as a negative factor for corporate profitability.

Nevertheless, the September reporting season was surprisingly positive and the good profits were accompanied by strong growth in dividends, particularly amongst mid cap companies, and also a marked shift upwards in the ratio of directors' purchases of their companies' shares compared to their sales.

## Portfolio

The portfolio is constructed to deliver both capital and income growth and we remain focussed on identifying good quality companies run by strong management teams, particularly where an above average dividend yield is available. As a general rule, we do not invest in loss making businesses which may be high risk and carry a material chance of failure. This strategy has again been beneficial to performance over the last year.

The Company entered the year in a net cash position as we prepared for the tender offer and repayment of the debenture. We employed a modest amount of gearing over the course of the year, utilising the facility where we saw opportunities. As markets became more difficult in the latter part of the year, cash that flowed into the Company as a result of takeover activity was used mainly to finance the purchase of the Company's own shares rather than being re-invested in equities. At the year end the Company was in an un-gearred position.

Over the year, the Company benefited from strong performances from a number of its holdings. Dobbies Garden Centres, (General Retail) was acquired by Tesco. Aveva Group, (Software and Compute Services) continued to be a positive contributor to performance. The shares almost doubled over the year as the company benefited from unprecedented demand from its primary markets of ship building, oil and gas and power generation. The company is now a global leader in the field of design software for major international companies. Laird Group, (Electronic and Electrical) was re-rated following the disposal of their security operations and subsequent return of capital to shareholders. The strength in their end markets and a series of well received acquisitions have also benefited the share price. Expro International (Oil and Gas Services) benefited from their ability to capitalise on strong international markets and successfully integrated a significant acquisition. Chloride Group (Electronic and Electrical) has produced good growth in both profitability and dividends from the increased demand for uninterruptible power supplies. These markets are growing ahead of global GDP as demand for power increases and power quality deteriorates.

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Although there were fewer acquisitions by number this year than in recent times, the Company again benefited from take over bids for a number of its holdings including European Motor Holdings, La Tasca and Quantica

### Outlook

Global equity markets are currently very volatile. The reasons for this are the crisis in the US sub prime mortgage market which is in turn causing turmoil in the credit markets. Investors are also concerned about the outlook for the US economy where the deterioration in the housing market is likely to impact consumer confidence.

Inflationary pressures caused by high oil and commodity prices have led to the Monetary Policy Committee to increase UK interest rates and there are now signs of rising unemployment. The outlook for interest rates in the UK remains uncertain though the market is currently expecting a cut in the early part of 2008. Merger and acquisition activity is no longer a positive factor for equity markets as both trade and private equity purchasers are struggling to secure liquidity.

Since the year end, the share prices of the smaller companies sector in the UK have fallen. Consequently, in the period from 31 October 2007 to 12 December 2007, the FTSE SmallCap Index (excluding Investment Companies) and the Company's NAV have fallen by 16.3% and 15.0% respectively.

**Ed Beal**

**Aberdeen Asset Managers Limited**

14 December 2007

# Results

## Financial Highlights

	31 October 2007	31 October 2006 <sup>a</sup>	% change
Total assets less current liabilities (before deducting prior charges)	£92,364,000 <sup>b</sup>	£146,253,000	
Equity shareholders' funds (Net Assets)	£82,364,000 <sup>b</sup>	£131,397,000	
Share price (mid market)	142.50p	144.50p	(1.4)
Net Asset Value per share	166.97p	161.31p	3.5
Net Asset Value per share adjusted for borrowings valued at market value	166.97p	154.90p	7.8
FTSE SmallCap Index (ex IC's) (capital gains basis)	3,610.99	3,533.95	2.2
<b>Discount (difference between share price and net asset value)</b>			
where borrowings are deducted at par	14.7%	10.4%	
where borrowings are deducted at market value	14.7%	6.7%	
<b>Gearing (ratio of borrowing to shareholders' funds)</b>			
Actual gearing ratio	0.69%	(12.46%)	
Potential gearing ratio	12.14%	11.43%	
<b>Dividends and earnings</b>			
Total return per share <sup>c</sup>	4.37p	41.08p	
Revenue return per share	4.47p	3.84p	16.4
Dividends per share <sup>d</sup>	4.25p	3.55p	19.7
Dividend cover (including proposed final dividend)	1.05	1.08	
Revenue reserves <sup>e</sup>	£4,412,000	£4,611,000	
<b>Operating costs</b>			
Total expense ratio	1.20%	1.49%	

<sup>a</sup> On 30 November 2006 each of the ordinary 25p shares were sub-divided into five ordinary shares of 5p. Therefore, the per share figures for the year ended 31 October 2006 above differ to those reported in the last Annual Report by a factor of five.

<sup>b</sup> The Tender Offer in November 2006 has had an impact on the assets of the Company.

<sup>c</sup> Measures the total earnings for the year divided by the weighted average number of ordinary shares in issue (see Income Statement).

<sup>d</sup> The figures for dividends per share reflect the years in which they were earned (see note 7 on page 34).

<sup>e</sup> The revenue reserve figure does not take account of the proposed final dividend amounting to £1,220,000 (2006: second interim of £871,000, final of £875,000).

## Performance

	1 year % return	3 year % return	5 year % return
<b>Capital return</b>			
Share price	(1.4)	76.8	169.9
Net Asset Value per share	3.5	59.9	138.0
FTSE SmallCap Index (ex IC's)	2.2	39.1	103.1
<b>Total return (Capital return plus dividends reinvested)</b>			
Share price	1.5	92.9	220.3
Net Asset Value per share	6.2	72.1	172.5
FTSE SmallCap Index (ex IC's)	4.6	49.0	129.6

## Dividends

Dividends	Rate per share	Ex date	Record date	Payment date
Proposed final dividend 2007	2.50p	16 January 2008	18 January 2008	11 February 2008
Interim dividend 2007	1.75p	27 June 2007	29 June 2007	6 July 2007
<b>2007</b>	<b>4.25p</b>			
Final dividend 2006	1.55p	17 January 2007	19 January 2007	12 February 2007
Second interim dividend 2006 <sup>a</sup>	1.07p	8 November 2006	10 November 2006	23 November 2006
First interim dividend 2006 <sup>a</sup>	0.93p	21 June 2006	23 June 2006	30 June 2006
<b>2006</b>	<b>3.55p</b>			

<sup>a</sup> Adjusted by a factor of five following share sub-division in November 2006.

# Performance

## Share Price Discount to NAV (%)

Five years to 31 October 2007

## Capital Return of NAV and Share Price vs FTSE SmallCap Index (ex Investment Companies)

Five years to 31 October 2007

## Ten Year Financial Record

Year to 31 October	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenue available for ordinary dividends (£'000)</b>	2,463	2,576	2,510	2,243	1,647	2,002	2,403	2,795	3,128	2,432 <sup>A</sup>
Per share										
Net revenue return (p)	2.9	3.1	3.0	2.7	2.0	2.4	2.9	3.4	3.8	4.5
Net dividends paid/proposed (p)	2.4	2.5	2.6	2.6	2.6	2.6	2.8	3.1	3.6	4.3
Net asset value (p)	71.3	101.5	134.8	95.9	68.9	90.1	102.6	123.3	161.3	167.0
Total return (p)	(9.8)	32.7	35.6	(23.7)	(24.4)	23.8	14.8	21.8	41.1	4.4
<b>Shareholders' funds (£'000)</b>	60,136	85,509	112,708	80,321	57,224	74,752	83,627	100,515	131,397	82,364

<sup>A</sup> The Tender Offer in November 2006 has had an impact on the revenue achievable

The per share values for the years 1998 to 2006 have been adjusted by a factor of five to reflect the sub-division of the ordinary 25p shares into 5 ordinary 5p shares in November 2006

The figures for 2005 for net asset value and shareholders' funds have been restated to reflect the changes in accounting policies (FRS 26 – Financial Instruments, Recognition and Measurement, FRS 21 – Events after the Balance Sheet Date). The figures for dividends have not been restated and still reflect the dividends for the years in which they were earned

# Investment Portfolio – Ten Largest Investments

As at 31 October 2007

Company	Sector	Market valuation 2007 £'000	Total assets %	Market valuation 2006 £'000
<b>Morgan Sindall</b> Morgan Sindall is a building contractor. As well as infrastructure projects the business has developed an expertise in the fit out and social housing markets	Construction & Materials	2,430	2.6	3,236
<b>Fenner</b> Fenner is a manufacturer of heavy duty belts used in industries such as coal mining. Demand from the mining markets has been strong. The company also produces advanced polymer products which are sold onto a broad range of demanding end markets	Industrial Engineering	2,261	2.4	2,693
<b>Menzies (John)</b> John Menzies is a logistic support services group. As well as the distribution of newspapers, magazines and periodicals, Menzies' international aviation group provides ground handling services to the air cargo industry	Support Services	2,190	2.4	1,691
<b>Laird</b> Laird produces a range of high performance antennae, and electromagnetic and thermal shielding products. Demand for such products is increasing as the complexity of electrical devices increases	Electronic & Electrical Equipment	2,178	2.4	1,503
<b>BPP</b> BPP publishes educational materials and books. They also provide professional training courses in finance, accountancy, taxation, law and various foreign languages and have become the UK's first for profit organisation to be granted degree awarding powers	Support Services	2,147	2.3	1,811
<b>Chloride</b> Chloride supplies uninterruptible power units to various end markets including government, telecoms and general manufacturing. The long term growth driver remains the deterioration in the quality of power supply. The proportion of service revenues within the mix is increasing which is helping margins	Electronic & Electrical Equipment	2,145	2.3	2,306
<b>Chemring Group</b> Chemring specialises in the manufacture of countermeasure and location devices. Main customers are the UK MoD and US Department of Defence. Terrorist activity and the Iraq war have highlighted growth opportunities for the group in the protection of military assets from missile attack.	Aerospace & Defence	2,129	2.3	2,216
<b>Holidaybreak</b> Holidaybreak is the market leader in the provision of UK and European short stay hotel breaks. They are also the UK market leader in the schools outdoor market. Additionally, they have an adventure holidays and camping business	Travel & Leisure	1,805	2.0	1,652
<b>Ultra Electronics</b> Ultra Electronics is a manufacturer of electronic products for the defence industry. The main products are for submarine detection, missile launch systems and battlespace technology	Aerospace & Defence	1,790	1.9	2,093
<b>British Polythene Industries</b> British Polythene Industries is the largest manufacturer of polythene films, sacks and bags in Europe. Key products include shrinkwrap, stretchwrap and silagewrap. End markets include food, agriculture, industrial and construction	General Industrials	1,732	1.9	2,250
<b>Ten largest investments</b>		<b>20,807</b>	<b>22.5</b>	

# Investment Portfolio – Other Investments

As at 31 October 2007

Company	Sector classification	Market valuation 2007 £'000	Total assets %	Market valuation 2006 £'000
BSS Group	Support Services	1,598	17	2,220
Savills	Real Estate	1,597	17	2,474
Dechra Pharmaceuticals	Pharmaceuticals & Biotechnology	1,590	17	1,642
Wilmington Group	Media	1,572	17	1,851
The Restaurant Group	Travel & Leisure	1,538	17	2,401
Expro International	Oil Equipment & Services	1,529	17	1,750
White Young Green	Support Services	1,506	16	1,958
Low & Bonar	Construction & Materials	1,496	16	1,576
Venture Production	Oil & Gas Producers	1,482	16	1,811
Numis Corporation	General Financial	1,479	16	1,445
Twenty largest investments		36,194	39.1	
SIG	Support Services	1,473	16	2,146
Unite Group	Real Estate	1,407	15	1,407
Victrex	Chemicals	1,374	15	2,326
Robert Walters	Support Services	1,346	15	1,879
Weir Group	Industrial Engineering	1,331	14	1,789
Mouchel Parkman	Support Services	1,293	14	1,351
Ennstone	Construction & Materials	1,288	14	1,488
TT Electronics	Electronic & Electrical Equipment	1,261	14	2,380
Bloomsbury Publishing	Media	1,254	14	504
Intermediate Capital Group	General Financial	1,242	13	1,904
Thirty largest investments		49,463	53.5	
RPC Group	General Industrials	1,228	13	1,298
Mothercare	General Retailers	1,221	13	1,067
CODA	Software & Computer Services	1,215	13	1,458
McBride	Household Goods	1,209	13	1,561
Headlam Group	Household Goods	1,202	13	1,633
Interserve	Support Services	1,162	13	838
Huntsworth	Media	1,162	13	1,310
Fuller Smith & Turner 'A'	Travel & Leisure	1,135	12	1,358
Aveva	Software & Computer Services	1,096	12	1,908
RM	Software & Computer Services	1,093	12	1,212
Forty largest investments		61,186	66.2	
TDG	Industrial Transportation	1,093	12	1,433
Hornby	Leisure Goods	1,090	12	1,020
Acal	Support Services	1,089	12	1,937
Anite Group	Software & Computer Services	1,067	12	1,103
Rensburg Sheppards	General Financial	1,055	11	1,847
Zotefoams	Chemicals	1,031	11	1,119
Management Consulting Group	Support Services	1,027	11	969
XP Power	Electronic & Electrical Equipment	1,011	11	1,436
Brammer	Support Services	998	11	670
Clarke (T)	Construction & Materials	989	11	1,597
Fifty largest investments		71,636	77.6	

## Investment Portfolio – Other Investments continued

Company	Sector classification	Market valuation 2007 £'000	Total assets %	Market valuation 2006 £'000
Forth Ports	Industrial Transportation	959	10	1,376
Detica Group	Software & Computer Services	892	10	870
Care UK	Health Care Equipment & Services	890	10	1,295
UTV Media	Media	780	08	787
Bellway	Household Goods	771	08	1,497
Havelock Europa	Household Goods	755	08	713
Umeco	Aerospace & Defence	745	08	559
Avon Rubber	General Industrials	731	08	1,071
Greggs	Food & Drug Retailers	689	07	571
Johnson Service Group	Support Services	626	07	–
Sixty largest investments		79,474	86.0	
Topps Tiles	General Retailers	608	07	556
Salvesen (Christian)	Industrial Transportation	589	06	877
Oxford Instruments	Electronic & Electrical Equipment	531	06	471
Spectris Group	Electronic & Electrical Equipment	495	05	660
Pendragon	General Retailers	456	05	717
Barr (AG)	Beverages	434	05	–
Alphameric	Software & Computer Services	246	03	822
Erinaceous	Support Services	98	01	–
Total value of investments		82,931	89.8	
Net current assets before borrowings		9,433	10.2	
Total assets <sup>A</sup>		92,364	100.0	

<sup>A</sup> See definition on page 43

# Sector Analysis

As at 31 October 2007

		FTSE SmallCap Index (ex IC's) Weighting %	Portfolio weightings	
			31 October 2007 %	31 October 2006 %
<b>Basic Materials</b>	Chemicals	2.13	2.60	2.36
	Mining	0.47	–	–
		<b>2.60</b>	<b>2.60</b>	<b>2.36</b>
<b>Consumer Goods</b>	Automobiles & Parts	0.08	–	–
	Beverages	0.43	0.47	–
	Food Producers	2.78	–	0.43
	Household Goods	0.74	4.26	3.69
	Leisure Goods	1.42	1.18	0.70
	Personal Goods	0.66	–	–
		<b>6.11</b>	<b>5.91</b>	<b>4.82</b>
<b>Consumer Services</b>	Food & Drug Retailers	0.31	0.76	0.39
	General Retailers	7.62	2.47	4.81
	Media	4.91	5.16	3.71
	Travel & Leisure	2.88	4.85	4.28
		<b>15.72</b>	<b>13.24</b>	<b>13.19</b>
<b>Financials</b>	Equity Investment Instruments	–	–	0.69
	General Financial	5.25	4.09	3.55
	Life Insurance	0.44	–	–
	Non Life Insurance/Assurance	2.71	–	0.45
	Real Estate	10.15	3.25	6.70
		<b>18.55</b>	<b>7.34</b>	<b>11.39</b>
<b>Health Care</b>	Health Care Equipment & Services	3.13	0.97	0.88
	Pharmaceuticals & Biotechnology	5.95	1.72	1.12
		<b>9.08</b>	<b>2.69</b>	<b>2.00</b>
<b>Industrials</b>	Aerospace & Defence	1.15	5.05	3.33
	Construction & Materials	2.89	6.71	5.40
	Electronic & Electrical Equipment	4.39	8.25	5.99
	General Industrials	0.87	4.00	3.16
	Industrial Engineering	6.14	3.89	3.06
	Industrial Transportation	3.24	2.86	2.52
	Support Services	12.58	17.92	13.35
		<b>31.26</b>	<b>48.68</b>	<b>36.81</b>
<b>Oil &amp; Gas</b>	Oil & Gas Producers	3.23	1.60	1.24
	Oil Equipment & Services	–	1.66	1.20
		<b>3.23</b>	<b>3.26</b>	<b>2.44</b>
<b>Technology</b>	Software & Computer Services	8.90	6.07	5.55
	Technology Hardware & Equipment	2.74	–	–
		<b>11.64</b>	<b>6.07</b>	<b>5.55</b>
<b>Telecommunications</b>	Fixed Line Telecommunications	1.81	–	–
		<b>1.81</b>	<b>–</b>	<b>–</b>
<b>Total equities</b>		<b>100.00</b>	<b>89.79</b>	<b>78.56</b>
<b>Net current assets before borrowings<sup>A</sup></b>		<b>–</b>	<b>10.21</b>	<b>21.44</b>
<b>Total assets less current liabilities</b>		<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

<sup>A</sup> Excludes bank loan of £10,000,000

## Information about the Manager

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The Company's manager is Aberdeen Asset Managers Limited ("AAM"), a wholly owned subsidiary of Aberdeen Asset Management PLC ("Aberdeen"), whose Group companies as at 31 October 2007 managed a combined £100.9 billion of funds for UK institutions, investment trusts, closed end funds, unit trusts, private clients and offshore funds

It has its headquarters in Aberdeen with principal investment offices in Bangkok, Edinburgh, Hong Kong, London, Philadelphia, Singapore and Sydney

The Group manages over 30 investment trusts and other closed end funds representing £6.4 billion under management

### The Investment Team Senior Managers

#### **Ed Beal**

Investment Manager

Ed is an investment manager on the Pan European equities team. Ed manages the Company. Ed joined Aberdeen\* in 2000 from the University of Dundee's Student Association where he was president leading development and strategy.

Ed graduated with a BSc (Hons) in Biochemistry from the University of Dundee and is a CFA Charterholder.

#### **Stewart Methven**

Senior Investment Manager

Stewart is a senior investment manager on the Pan European equity team. Stewart joined Aberdeen\* in 1994 from Scottish Provident where he was responsible for smaller company investment. Previously, Stewart worked for Prudential Portfolio Managers as an investment analyst.

Stewart graduated with a first class BA (Hons) in Economics from Heriot Watt University, Edinburgh and is a member of the Association for Investment Management and Research.

\*or acquired companies

# The Investment Process

## Philosophy and Style

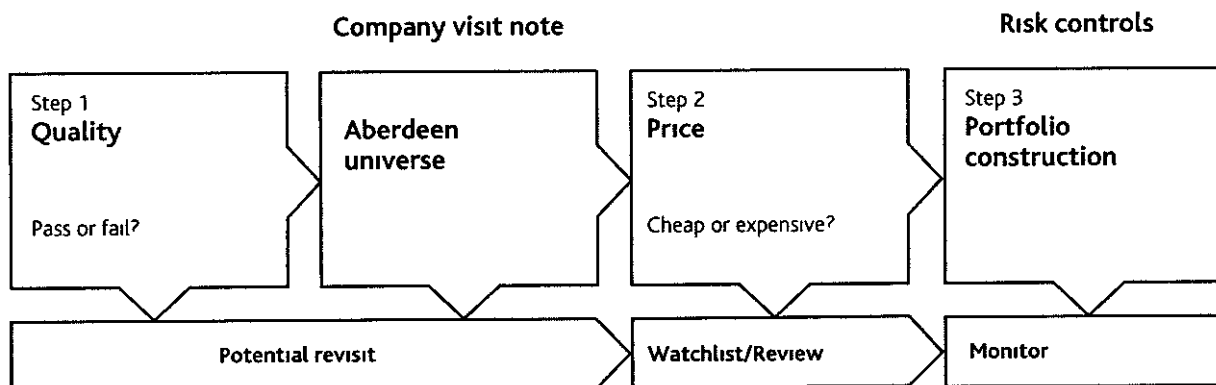
The Manager's investment philosophy is that markets are not always efficient. We believe that superior investment returns are therefore attainable by identifying good companies cheaply, defined in terms of the fundamentals that in our opinion drive share prices over the long term. We undertake substantial due diligence before initiating any investment including company visits in order to assure ourselves of the quality of the prospective investment. We are then careful not to pay too high a price when making the investment. Subsequent to that investment we then keep in close touch with the company, aiming to meet management at least twice a year. Given our long term fundamental investment philosophy, one would not expect much change in the companies in which we invest. We do, however, take opportunities offered to us by what we see as anomalous price movements within stock markets to either top up or top slice positions, which accounts for the bulk of the activity within the portfolio during the year under review.

## Risk Controls

We seek to minimise risk by our in depth research. We do not view divergence from a benchmark as risk – we view investment in poorly run expensive companies that we do not understand as risk. In fact where risk parameters are expressed in benchmark relative terms, asset – including sector – allocation constitutes a significant constraint on stock selection. Hence diversification of stocks provides our main control.

Aberdeen's performance and investment risk unit independently monitors portfolio positions, and reports monthly. As well as attributing performance it also produces statistical analysis, which is used by the Manager primarily to check the portfolio is behaving as expected, not as a predictive tool.

## Regional Teams



## Your Board of Directors

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The Directors, all of whom are non executive, and the majority of whom are independent of the Manager, supervise the management of Dunedin Smaller Companies Investment Trust PLC and represent the interests of shareholders

### The Earl of Dalhousie

**Status** Independent Non Executive Chairman

**Age** 59

**Length of service** 14 years, appointed a Director on 1 November 1993

**Experience** formerly a director of Hambros Bank Ltd, Enskilda Securities and Capel Cure Myers Capital Management

**Last re elected to the Board** 9 February 2006

**Committee membership** Audit Committee and Management Engagement Committee

**Remuneration** £18,203

**All other public company directorships** None

**Employment by the Manager** None

**Other connections with Trust or Manager** None

**Shared Directorships with any other Trust Directors** None

**Shareholding in Company** 20,000 5p ordinary shares and 3,000 subscription shares

### T J K Barnes

**Status** Independent Non Executive Director

**Age** 46

**Length of service** 4 years, appointed a Director on 1 December 2003

**Experience** is chief executive of Dobbies Garden Centres and a former investment banker

**Last re elected to the Board** 8 February 2007

**Committee membership** Audit Committee and Management Engagement Committee

**Remuneration** £13,891

**All other public company directorships** Dobbies Garden Centres PLC

**Employment by the Manager** None

**Other connections with Trust or Manager** None

**Shared Directorships with any other Trust Directors** None

**Shareholding in Company** 12,825 5p ordinary shares and 1,923 subscription shares

### R M Entwistle

**Status** Independent Non Executive Director and Senior Independent Director

**Age** 63

**Length of service** 9 years, appointed a Director on 18 December 1998

**Experience** is chairman of Adam & Company and a Fellow of the Chartered Institute of Bankers

**Last re elected to the Board** 10 February 2005

**Committee membership** Audit Committee and Management Engagement Committee

**Remuneration** £13,891

**All other public company directorships** Adam & Company Group PLC

**Employment by the Manager** None

**Other connections with Trust or Manager** None

**Shared Directorships with any other Trust Directors** None

**Shareholding in Company** 30,000 5p ordinary shares and 4,500 subscription shares

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### **N M Yarrow**

**Status** Non Executive Director

**Age** 47

**Length of service** 9 years, appointed a Director on 21 May 1998

**Experience** is a director of Northern Venture Managers which was, between June 2000 and December 2003, a subsidiary of Edinburgh Fund Managers Group plc, (a subsidiary of the Manager) and a member of the Institute of Chartered Accountants of Scotland

**Last re elected to the Board** 8 February 2007

**Committee membership** Chairman of the Audit Committee and Management Engagement Committee

**Remuneration.** £15,558

**All other public company**

**directorships** None

**Employment by the Manager** Former employee

**Other connections with Trust or Manager** None

**Shared Directorships with any other Trust Directors** None

**Shareholding in Company** 20,000 5p ordinary shares and 3,000 subscription shares

# Directors' Report

## Business Review

The Board has prepared this Business Review in accordance with the requirements of Section 234ZZB of the Companies Act 1985. A review of the Company's activities is given in the Corporate Summary on pages 2 and 3, the Chairman's Statement on pages 4 and 5 and the Manager's Review on pages 6 and 7. This includes a review of the business of the Company and its principal activities, likely future developments of the business, recommended dividend and details of acquisition of its own shares by the Company. The Board has adopted a matrix of the key risks that affect its business. The major risks associated with the Company are detailed in note 18 to the Financial Statements. Other risks include

- (i) Performance risk The performance of the portfolio relative to the Benchmark (FTSE SmallCap Index (ex Investment Companies)) and the underlying stock weightings in the portfolio against their Index weightings are monitored closely by the Board
- (ii) Discount volatility The Company's shares can trade at a discount to its underlying net asset value. The Company operates a share buyback programme which is reviewed on an ongoing basis
- (iii) Regulatory risk The Company operates in a complex regulatory environment and faces a number of regulatory risks. Breaches of regulations, such as Section 842 of the Income and Corporation Taxes Act 1988, the UKLA Listing Rules and the Companies Act, could lead to a number of detrimental outcomes and reputational damage. The Audit Committee monitors compliance with regulations by reviewing internal control reports from the Manager

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. Below are the main key performance indicators (KPIs) which have been identified by the Board for determining the progress of the Company

Year ended 31 October 2007	
Net asset value	166.97p
Share price	142.50p
Discount	14.7%
FTSE SmallCap Index	3,610.99
Total expense ratio	1.20%

A record of these measures is disclosed on page 8.

The current Directors as outlined in the table opposite were the only Directors who served during the year.

The Company makes no political donations or expenditures or donations for charitable purposes and, in common with most investment trusts, has no employees.

## Results and Dividends

The Directors recommend that a final dividend of 2.50p (2007 – 1.55p) is paid on 11 February 2008 to shareholders on the register on 18 January 2008. The ex-dividend date is 16 January 2008.

## Principal Activity

The business of the Company is that of an investment trust and the Directors do not envisage any change in this activity in the foreseeable future.

## Status

The Company is registered as a public limited company.

The Company has been approved by the Inland Revenue as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 October 2006. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 31 October 2007 so as to be able to continue to obtain approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for that year.

The affairs of the Company were conducted in such a way as to comply with the qualifying equity rule as defined in the Personal Equity Plan Regulations. The Company has also conducted its affairs so as to satisfy the requirements as a qualifying security for Individual Savings Accounts. The Directors intend that the Company will continue to conduct its affairs in this manner in the future.

## Directors

Details of the current Directors of the Company are shown on pages 16 and 17.

In accordance with the Articles of Association, Mr Entwistle will retire from the Board by rotation and, being eligible, will offer himself for re-election at the Annual General Meeting. The Board has reviewed his skills and experience and has no hesitation in recommending to shareholders his re-election at the Annual General Meeting.

The Directors at 31 October 2007 and 1 November 2006 had no interest other than those interests, all of which are beneficial interests, shown opposite in the share capital of the Company. None of the Directors had any non-beneficial interests in the share capital of the Company at 31 October 2007 or 1 November 2006.

	31 October 2007*		1 Nov 2006
	Ord 5p	Sub shares	Ord 25p
The Earl of Dalhousie	20,000	3,000	4,000
T J K Barnes	12,825	1,923	2,565
R M Entwistle	30,000	4,500	6,000
N M Yarrow	20,000	3,000	4,000

\* post subdivision

The above interests changed on 30 November 2006 following the sub division of ordinary shares of 25p each into five ordinary shares of 5p each. Additionally each shareholder received 15 subscription shares for every 100 ordinary share of 5p held. 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 was, between June 2000 and December 2003, a subsidiary of Edinburgh Fund Managers Group plc, (a subsidiary of the Manager). No Director had a service contract with the Company.

#### Directors' & Officers' Liability Insurance

The Company maintains insurance in respect of Directors' and Officers' liabilities in relation to their acts on behalf of the Company.

#### Corporate Governance

The Statement of Corporate Governance is shown on pages 21 to 23.

#### 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.

#### Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the financial statements appear on pages 24 and 26.

Each Director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. Additionally there are no important events since the year end.

#### 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 reappoint them and to authorise the Directors to fix their remuneration. The Directors have reviewed the level of non audit services provided by the auditors during the year together with the auditors' procedures in connection with the provision of such services and remain satisfied that KPMG Audit Plc's objectivity and independence is being safeguarded.

#### Substantial Interests

At 14 December 2007, being the nearest practicable date to the signing of this Report, the following were registered or had notified the Company as being interested in 3% or more of the Company's ordinary share capital.

Name of Shareholder	Number of ordinary shares held	% of ordinary shares held
Aberdeen Investment Trust Savings Plans <sup>A</sup>	10,986,465	22.5
Aberdeen Asset Managers A	5,267,275	10.8
Derbyshire County Council	3,400,000	7.0
Legal & General Investment Management Ltd <sup>A</sup>	2,486,602	5.1
DC Thomson & Company Ltd	2,030,000	4.2

<sup>A</sup> Non beneficial interest

#### Creditor Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. In certain circumstances, settlement terms are agreed prior to business taking place.

#### Annual General Meeting Special Business

Under resolution 7 it is proposed that, in line with common practice, the Directors be authorised to allot up to £803,729 of relevant securities in the Company (equivalent to 16,074,571 ordinary shares of 5p, representing approximately 33% of the Company's issued share capital) without further reference to the Company in general meeting for a period ending at the conclusion of the Annual General Meeting in 2009. The Directors have no current intention to utilise this authority.

Under Section 89(1) of the Companies Act 1985, where it is proposed to issue equity securities for cash, they must first be offered to existing shareholders in proportion to their holdings. In some circumstances it is beneficial to allot such securities for cash without first offering them in this way.

## Directors' Report continued

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The Directors will therefore propose a special resolution (resolution 8) at the Annual General Meeting which, if passed, will allow them to allot equity securities for cash up to an aggregate nominal value of £121,777 as if Section 89(1) did not apply. This authority will lapse (unless renewed) at the conclusion of the Annual General Meeting in 2009. Ordinary shares would not be issued at a price that is less than the prevailing net asset value.

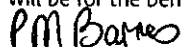
The Directors also propose to seek renewed approval at the forthcoming Annual General Meeting of the Company to purchase its own ordinary and subscription shares in the market. The maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued ordinary share capital of the Company and the maximum aggregate number of subscription shares which may be purchased pursuant to the authority shall be 14.99% of the subscription shares in issue as at the date of the passing of the resolution. The minimum price which may be paid for an ordinary share and subscription share shall be 5p and 0.001p respectively. The maximum price (exclusive of expenses) which may be paid for the shares shall be the higher of a) 5% above the average of the market values of the ordinary shares or subscription shares (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 b) the higher of the price of the last independent trade and the highest current independent bid on the main market for the ordinary shares or subscription shares (as appropriate).

The authority to buy back ordinary shares, if conferred, will only be exercised if to do so would result in an increase in net asset value per ordinary share for the remaining shareholders and if it is in the best interests of shareholders generally. Any ordinary shares purchased under this authority will be cancelled. Purchases of subscription shares will only be made through the market at prices where the Directors believe such purchases will enhance ordinary shareholder value.

This authority will last until the conclusion of the Annual General Meeting of the Company to be held in 2009 (unless previously revoked, varied or renewed by the Company in general meeting).

The Company is normally prohibited from purchasing its own shares during the close periods prescribed by the UKLA's Listing Rules. The Directors intend to seek waivers from the UKLA relating to those close periods which, if granted, will allow the Company to exercise the power to buy back shares at any time. Any use by the Company of the authority to purchase shares will be by way of either a single purchase or a series of purchases, when market conditions allow, with the aim of maximising the benefit to shareholders.

The above resolutions will give Directors additional flexibility going forward and the Directors consider that it will be in the interest of the Company that such powers be available. Accordingly, the Directors recommend that shareholders vote in favour of the above resolutions. Such powers will only be implemented when, in the view of the Directors, to do so will be for the benefit of all shareholders.



By order of the Board

**Aberdeen Asset Management PLC**

Secretary, Edinburgh

14 December 2007

# Statement of Corporate Governance

## Introduction

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 UK Listing Authority Listing Rules). The Board confirms that the Company has complied throughout the accounting period with the relevant provisions contained within the Code.

Additionally, as the Company is a member of the AIC, the Board has taken account of the recommendations of the AIC's Code of Corporate Governance (the "AIC Code") which seeks to codify best practice of particular relevance to investment trusts.

## Directors

The Earl of Dalhousie and Messrs Barnes and Entwistle 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 an executive director of Northern Venture Managers which was, between June 2000 and December 2003, a subsidiary of Edinburgh Fund Managers Group plc, (a subsidiary of the Manager). 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 Entwistle. 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. The Board takes the view that independence is not compromised by length of tenure on the Board and that experience can add significantly to the Board's strength.

The Board has in place the necessary procedures to conduct, on an annual basis, an appraisal of the Chairman of the Board as well as a performance evaluation of the Board as a whole. The Board has also reviewed the Chairman's and Directors' other commitments and is satisfied that the Chairman and other Directors are capable of devoting sufficient time to the Company.

During the year ended 31 October 2007, the Board met six times. In addition, the Audit Committee and Management Engagement Committee met twice. Between meetings the Board maintains regular contact with the Manager.

Directors have attended Board and Committee meetings during the year ended 31 October 2007 as follows (with their eligibility to attend the relevant meeting in brackets).

Director	Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
The Earl of Dalhousie (Chairman)	5 (6)	2 (2)	2 (2)
T J K Barnes	5 (6)	2 (2)	2 (2)
R M Entwistle	5 (6)	2 (2)	2 (2)
N M Yarrow	5 (6)	2 (2)	2 (2)

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, Aberdeen Asset Management 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 Annual 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.

## Statement of Corporate Governance continued

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

Responsibility for actively monitoring the activities of investee companies has been delegated by the Board to the Manager. The Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by the investee company, and for attending company meetings. The Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights. The Manager's policy is to vote all shares held by the Company.

### Socially Responsible Investment Policy

The Board is aware of its duty to act in the interests of the Company. The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner. The Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments. The Directors, through the Company's Manager, encourage companies in which investments are made to adhere to best practice in the area of Corporate Governance. 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 this area. The Company's ultimate objective however is to deliver superior investment return for their clients. Accordingly, whilst the Manager will seek to favour companies which pursue best practice in the above areas, this must not be to the detriment of the return on the investment portfolio.

### Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. Following the Financial Reporting Council's publication of 'Internal Control: Revised Guidance for Directors on the Combined Code' (the FRC guidance) in October 2005, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and Accounts, and is regularly reviewed by the Board and accords with the FRC guidance. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the

Company and policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial,
- operational, and
- compliance

The key components designed to provide effective internal control are outlined below:

- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance,
- the Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board,
- as a matter of course the Manager's compliance department continually reviews the Manager's operations, written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers,
- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Manager, has decided to place reliance on the Manager's systems and internal audit procedures, and at its December 2007 meeting, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 October 2007 by considering documentation from the Manager, including the internal audit and compliance functions and taking account of events since 31 October 2007. The results of the assessment were then reported to the Board at the next Board meeting.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

### Board Committees

The Directors have appointed an Audit Committee. The Audit Committee operates within clearly defined written terms of reference (copies of which are available upon request from the Company and on the Company's website) and comprises the entire Board with Mr Yarrow acting as Chairman. In summary, the Audit Committee's main functions are:

- to review and monitor the internal control systems and risk management systems on which the Company is reliant,
- to consider annually whether there is a need for the Company to have its own internal audit function,

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to monitor the integrity of the interim and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager and Administrator,

- to meet, as required, with the external auditors to review their proposed audit programme of work and the findings of the auditors. The Committee shall also use this as an opportunity to assess the effectiveness of the Audit process,
- to develop and implement policy on the engagement of the external auditor to supply non audit services,
- to review the arrangements in place within Aberdeen whereby Aberdeen staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters,
- to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor; and
- to monitor and review annually the external auditor's independence, objectivity, effectiveness, resources and qualification

Services provided for the non audit fee of £19,000 for the year comprised the interim review, the annual trustee letter for the Debenture Stock and for services related to the tender offer. Shareholders have the opportunity at each Annual General Meeting to vote on the appointment of the external auditors for the forthcoming year. The Committee also reviews annually the "whistle blowing" arrangements in place within the Manager whereby its staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters.

The Directors have appointed a Management Engagement Committee. All of the Directors are members of the Management Engagement Committee and Mr Yarrow is the Chairman. The Committee reviews the performance of the Manager and its compliance with the terms of the management and secretarial agreement. The terms and conditions (copies of which are available upon request from the Company and on the Company's website) of the Manager's appointment, including an evaluation of performance and fees, are reviewed by the Committee on an annual basis. The Committee believes that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Given the size of the Board, the Board as a whole acts as a Nomination Committee with the Senior Independent Director acting as Chairman.

# Statement of Directors' Responsibilities

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The Directors are responsible for preparing the Annual Report & Accounts and the financial statements, in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
  - make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

# Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting. The law requires your Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 26.

## Remuneration Committee

As the Board of Directors is comprised solely of non executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

## Unaudited Information

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £100,000 per annum. Subject to this overall limit, the Board's policy is that the remuneration of non executive Directors should reflect the experience of the Board as a whole and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective. It is intended that this policy will continue for the year to 31 October 2008 and subsequent years. The fees for the non executive Directors are determined within the limits set out in the Company's Articles of Association, and they are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits. The Board carried out a review of the level of Directors' fees during the year and concluded that the amounts should increase to £20,000, £17,500 and £15,000 for the Chairman, Audit Committee Chairman and remaining Directors respectively effective 1 March 2007.

No Director has a service contract with the Company. The terms of their appointment provide that a Director shall retire and be subject to re election at the first Annual General Meeting after their appointment, and at least every three years after that. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

No Director was interested in contracts with the Company during the period or subsequently.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The graph opposite shows the share price and NAV total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total return from the FTSE SmallCap Index (excluding Investment Companies). This

index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.

## Audited Information

### Directors' Emoluments

The Directors who served in the year received the following fees which exclude employers' NI and any VAT payable.

	2007	2006
Director	£	£
The Earl of Dalhousie	18,203	14,296
T J K Barnes	13,891	11,425
R M Entwistle	13,891	11,425
N M Yarrow	15,558	11,425
<b>Total</b>	<b>61,543</b>	<b>48,571</b>

## Approval

The Directors' Remuneration Report was approved by the Board of Directors on 14 December 2007 and signed on its behalf by

By order of the Board  
**Aberdeen Asset Management PLC**  
Secretary, Edinburgh  
14 December 2007

# Independent Auditors' Report to the Members of Dunedin Smaller Companies Investment Trust PLC

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We have audited the financial statements of Dunedin Smaller Companies Investment Trust PLC for the year ended 31 October 2007 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 24.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Corporate Summary, Chairman's Statement and the Manager's Review that is cross referenced from the business review section of the Directors' Report. We also report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by

the Listing Rules of 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 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. Our responsibilities do not extend to any other information.

## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 and the part of the Directors' Remuneration Report to be audited 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 financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 October 2007 and of its total return for the year then ended,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Edinburgh  
14 December 2007

*KPMG Audit Plc*

# Income Statement

	Notes	Year ended 31 October 2007			Year ended 31 October 2006		
		Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Gains on investments	9	–	7,558	7,558	–	32,546	32,546
Income	2	3,114	–	3,114	3,914	–	3,914
Investment management fee	3	(111)	(566)	(677)	(162)	(1,296)	(1,458)
Administrative expenses	4	(376)	–	(376)	(307)	–	(307)
<b>Net return before finance costs and taxation</b>		<b>2,627</b>	<b>6,992</b>	<b>9,619</b>	<b>3,445</b>	<b>31,250</b>	<b>34,695</b>
Finance costs	5	(195)	(7,045)	(7,240)	(317)	(949)	(1,266)
<b>Return on ordinary activities before taxation</b>		<b>2,432</b>	<b>(53)</b>	<b>2,379</b>	<b>3,128</b>	<b>30,301</b>	<b>33,429</b>
Taxation	6	–	–	–	–	–	–
<b>Return on ordinary activities after taxation</b>		<b>2,432</b>	<b>(53)</b>	<b>2,379</b>	<b>3,128</b>	<b>30,301</b>	<b>33,429</b>
<b>Return per ordinary share (pence)</b>	<b>8</b>	<b>4.47</b>	<b>(0.10)</b>	<b>4.37</b>	<b>3.84</b>	<b>37.24</b>	<b>41.08</b>

The total column of this statement represents the profit and loss account of the Company

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement

All revenue and capital items in the above statement derive from continuing operations


The accompanying notes are an integral part of the financial statements

To enable comparison following the sub division, the return per ordinary share, the weighted average number of ordinary shares in issue and the net asset value per ordinary share for the year ended 31 October 2006 have been restated to reflect the effect of the sub division of ordinary shares

# Balance Sheet

	Notes	As at 31 October 2007 £'000	As at 31 October 2006 £'000
<b>Non current assets</b>			
Investments at fair value through profit or loss	9	82,931	114,893
<b>Current assets</b>			
Debtors and prepayments	10	307	2,217
UK Treasury Bills	16	4,963	19,064
AAA Money Market funds	16	4,350	10,915
Cash and short term deposits	16	386	367
		10,006	32,563
<b>Creditors amounts falling due within one year</b>			
Bank loan	11	(10,000)	–
Other creditors	11	(573)	(1,203)
		(10,573)	(1,203)
<b>Net current (liabilities)/assets</b>		(567)	31,360
<b>Total assets less current liabilities</b>		82,364	146,253
<b>Creditors amounts falling due after more than one year</b>			
	12	–	(14,856)
<b>Net assets</b>		<b>82,364</b>	<b>131,397</b>
<b>Capital and reserves</b>			
Called up share capital	13	2,466	4,068
Share premium account		19	–
Capital redemption reserve		2,160	557
Capital reserve – realised		43,435	76,606
Capital reserve – unrealised		29,872	45,555
Revenue reserve		4,412	4,611
<b>Equity shareholders' funds</b>		<b>82,364</b>	<b>131,397</b>
<b>Net asset value per ordinary share (pence)</b>	17	<b>166 97</b>	<b>161 31</b>

The financial statements were approved by the Board of Directors and authorised for issue on 14 December 2007 and were signed on its behalf by

  
The Earl of Dalhousie

Director

The accompanying notes are an integral part of the financial statements

## Reconciliation of Movements in Shareholders' Funds

### For the year ended 31 October 2007

Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2006	4,068	–	557	76,606	45,555	4,611	131,397
Issue of subscription shares	1	19	–	–	–	–	20
Corporate restructuring costs	–	–	–	(595)	–	–	(595)
Purchase of own shares	(1,603)	–	1,603	(48,206)	–	–	(48,206)
Return on ordinary activities after taxation	–	–	–	15,630	(15,683)	2,432	2,379
Dividends paid	7	–	–	–	–	(2,631)	(2,631)
<b>Balance at 31 October 2007</b>	<b>2,466</b>	<b>19</b>	<b>2,160</b>	<b>43,435</b>	<b>29,872</b>	<b>4,412</b>	<b>82,364</b>

### For the year ended 31 October 2006

Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2005	4,068	557	65,270	26,590	4,030	100,515
Return on ordinary activities after taxation	–	–	11,336	18,965	3,128	33,429
Dividends paid	7	–	–	–	(2,547)	(2,547)
<b>Balance at 31 October 2006</b>	<b>4,068</b>	<b>557</b>	<b>76,606</b>	<b>45,555</b>	<b>4,611</b>	<b>131,397</b>

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend

The accompanying notes are an integral part of the financial statements

# Cash Flow Statement

		Year ended 31 October 2007		Year ended 31 October 2006	
	Notes	£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	14		1,813		2,519
<b>Servicing of finance</b>					
Interest paid			(1,250)		(1,257)
<b>Financial investment</b>					
Purchases of investments		(7,738)		(13,185)	
Sales of investments		49,253		26,398	
<b>Net cash inflow from financial investment</b>			41,515		13,213
<b>Equity dividends paid</b>	7		(2,631)		(2,547)
<b>Net cash inflow before use of liquid resources and financing</b>			39,447		11,928
<b>Net cash inflow/(outflow) from management of liquid resources</b>			20,666		(12,786)
<b>Net cash inflow/(outflow) before financing</b>			60,113		(858)
<b>Financing</b>					
Drawdown of bank loan		10,000		-	
Repayment of Debenture Stock		(21,464)		-	
Repurchase of own shares		(48,061)		-	
Issue of subscription shares		20		-	
Corporate restructuring costs		(589)		-	
<b>Net cash outflow from financing</b>			(60,094)		-
<b>Increase/(decrease) in cash</b>	15		19		(858)
<b>Reconciliation of net cash flow to movements in net funds</b>					
Increase/(decrease) in cash as above			19		(858)
Net change in liquid resources			(20,666)		12,786
<b>Change in net funds resulting from cash flows</b>			(20,647)		11,928
Repayment of Debenture Stock			15,000		-
Drawdown of loan			(10,000)		-
Amortised Debenture Stock expenses written off			(144)		(9)
<b>Movement in net funds in the year</b>			(15,791)		11,919
Opening net funds			15,490		3,571
<b>Closing net (debt)/funds</b>	16		(301)		15,490

The accompanying notes are an integral part of the financial statements

# Notes to the Financial Statements For the year ended 31 October 2007

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## 1 Accounting policies

### (a) Basis of preparation and going concern

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of investments and in accordance with the applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (issued in 2003 and revised in December 2005). They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis. The Directors believe this is appropriate for the reasons outlined in the Directors' Report on page 19.

The financial statements and the net asset value per share figures have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

### (b) Revenue, expenses and interest payable

Income from equity investments (other than special dividends), including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex dividend. Special dividends are credited to revenue or capital according to the circumstances. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short term deposits, expenses and interest payable are accounted for on an accruals basis. Interest payable is calculated on an effective yield basis.

Expenses are charged to capital when they are incurred in connection with the maintenance or enhancement of the value of 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 (see note 3).

### (c) Investments

Investments have been designated upon initial recognition as fair value through profit or loss. Investments are recognised at trade date where a purchase or sale is under contract whose terms require delivery within the timeframe established by the market concerned, and are measured initially at fair value. Subsequent to initial recognition, investments are recognised at fair value through profit or loss. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks, sourced from the London Stock Exchange. SETS is the London Stock Exchange electronic trading service covering most of the market including all FTSE All Share and the most liquid AIM constituents.

### (d) Dividends payable

Interim and final dividends are recognised in the period in which they are paid.

### (e) Capital reserves

#### Realised

Realised gains and losses on realisation of investments held at fair value are recognised in the Income Statement and are ultimately transferred to the realised capital reserve. In addition, any prior unrealised gains or losses on such investments are transferred from the unrealised capital reserve to the realised capital reserve on disposal of investments. The capital element of the management fee along with the associated irrecoverable VAT and the relevant finance costs are charged to this reserve. Any associated tax relief is credited to this reserve.

#### Unrealised

Increases and decreases in the valuation of investments held at fair value are recognised in the Income Statement and are ultimately transferred to the unrealised capital reserve.

### (f) Taxation

Deferred taxation is provided on all temporary differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the Balance Sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable

## Notes to the Financial Statements continued

profits from which the future reversal of the underlying temporary differences can be deducted. Temporary differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

Owing to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

	2007 £'000	2006 £'000
<b>2 Income</b>		
<b>Income from investments</b>		
UK dividend income	2,541	3,154
Overseas dividend income	28	–
	<b>2,569</b>	<b>3,154</b>
<b>Other income</b>		
Interest from AAA rated Money Market funds	223	234
Interest on Treasury Bills	260	492
Deposit interest	58	32
Underwriting commission	4	2
	<b>545</b>	<b>760</b>
<b>Total income</b>	<b>3,114</b>	<b>3,914</b>

	Revenue £'000	2007 Capital £'000	Total £'000	Revenue £'000	2006 Capital £'000	Total £'000
<b>3 Investment management fee</b>						
Investment management fee	98	295	393	138	414	552
Performance fee	–	200	200	–	689	689
	98	495	593	138	1,103	1,241
Irrecoverable VAT thereon (where applicable)	13	71	84	24	193	217
	<b>111</b>	<b>566</b>	<b>677</b>	<b>162</b>	<b>1,296</b>	<b>1,458</b>

The management fee paid to the Manager is calculated at 0.40% per annum of the gross assets of the Company after deducting current liabilities and excluding commonly managed funds ('adjusted gross assets').

In addition, the Manager is entitled to a performance related fee calculated quarterly in arrears at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1% by which the Company's net asset value performance outperforms the capital performance of the FTSE SmallCap Index (ex IC's) over the twelve month period.

The management agreement between the Company and the Manager is normally terminable by either party on 3 months' notice.

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

	2007 £'000	2006 £'000
<b>4 Administrative expenses</b>		
Directors' fees	62	49
Auditors' remuneration		
– fees payable to the Company's auditor		
– for the audit of the annual accounts	12	12
– fees payable to the Company's auditor and its associates for other services		
– interim review	3	3
– for other services pursuant to legislation	–	1
– for other services	–	2
Secretarial fees	65	63
Investment Trust Initiative	33	36
Registrar's fees	42	38
Advisory fees	24	–
Loan commitment fee	21	–
Irrecoverable VAT	38	33
Other expenses	76	70
	<b>376</b>	<b>307</b>

The secretarial fee of £65,000 (2006 – £63,000) is paid to the Manager

A contribution of £33,000 (2006 – £36,000) was paid to the Manager in respect of marketing and promotion of the Company through their Investment Trust Initiative

Services related to Corporate Finance Transactions

During the year an additional amount of £16,082 was paid to KPMG Transaction Services for services relating to the tender offer. This figure is reflected within the total corporate restructuring costs in the Reconciliation in Movements in Shareholders' Funds

	Revenue £'000	2007 Capital £'000	Total £'000	Revenue £'000	2006 Capital £'000	Total £'000
<b>5 Finance costs</b>						
8 375% Debenture Stock interest	22	67	89	315	942	1,257
Debenture Stock premium and issue expenses written off	36	108	144	2	7	9
Bank loan interest	136	406	542	–	–	–
Bank overdraft interest	1	–	1	–	–	–
Premium paid on Debenture Stock repurchase	–	6,464	6,464	–	–	–
	<b>195</b>	<b>7,045</b>	<b>7,240</b>	<b>317</b>	<b>949</b>	<b>1,266</b>

## 6 Taxation

There is no liability to corporation tax for the year (2006 – nil)

At the year end, the Company had surplus management expenses and loan relationship losses of £24,040,000 (2006 – £16,310,000). These have been generated because such a large part of the Company's income is derived from dividends from UK companies. The Company is not expected to generate taxable income in a future period in excess of deductible expenses for that period and, accordingly, is unlikely to be able to reduce future tax liabilities by offsetting these losses.

## Notes to the Financial Statements continued

These losses are not recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of deductible expenses for that future period and, accordingly, is unlikely to be able to reduce future tax liabilities by offsetting these losses.

Due to the Company's status as an investment trust and the intention to continue to meet the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on capital gains and losses arising on the revaluation or disposal of investments.

<b>7 Dividends</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
Amounts recognised as distributions to equity holders in the period		
Second interim dividend payable 2006 – 1 07p <sup>^</sup> (2005 – nil)	871	–
Final dividend for 2006 – 1 55p (2005 – 2 20p <sup>^</sup> )	875	1,790
Interim dividend for 2007 – 1 75p (2006 – 0 93p <sup>^</sup> )	885	757
<b>Dividends paid in the period</b>	<b>2,631</b>	<b>2,547</b>

<sup>^</sup> Adjusted rate taking into account 5 for 1 share sub division in November 2006

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The table below sets out the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 842 ('s 842') Income and Corporation Taxes Act 1988 are considered. The revenue available for distribution by way of dividend for the year is £2,432,000 (2006 – £3,128,000).

	<b>2007 £'000</b>	<b>2006 £'000</b>
Interim dividend paid for 2007 – 1 75p (2006 – 0 93p <sup>^</sup> )	885	757
Second interim dividend payable for 2006 – 1 07p <sup>^</sup>	–	871
Proposed final dividend for 2007 – 2 50p (2006 – 1 55p)	1,218	875
	<b>2,103</b>	<b>2,503</b>

<sup>^</sup> Adjusted rate taking into account 5 for 1 share sub division in November 2006

Since the year end the Company has bought back 616,500 shares, therefore, the proposed final dividend for 2007 is based on the latest share capital of 48,710,821 ordinary 5p shares.

<b>8 Return per ordinary share</b>	<b>2007 p</b>	<b>2006 p<sup>^</sup></b>
Revenue return	4 47	3 84
Capital return	(0 10)	37 24
<b>Total return</b>	<b>4 37</b>	<b>41 08</b>
<b>Weighted average number of ordinary shares in issue</b>	<b>54,391,540</b>	<b>81,368,595<sup>^</sup></b>

<sup>^</sup> Adjusted to reflect the 5 for 1 share sub division in November 2006

	Listed in UK 2007 £'000	Listed in UK 2006 £'000
<b>9 Investments</b>		
Fair value through profit or loss		
Opening fair value	114,893	97,265
Opening unrealised appreciation	(45,555)	(26,590)
Opening book cost	69,338	70,675
Purchases at cost	7,969	12,886
Sales – proceeds	(47,489)	(27,804)
– realised gains on sales	23,241	13,581
Closing book cost	53,059	69,338
Closing unrealised appreciation	29,872	45,555
Closing fair value	<b>82,931</b>	<b>114,893</b>

	2007 £'000	2006 £'000
<b>Gains on investments</b>		
Realised gains on sales	23,241	13,581
(Decrease)/increase in unrealised appreciation	(15,683)	18,965
	<b>7,558</b>	<b>32,546</b>

#### Transaction costs

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Income Statement. The total costs were as follows:

	2007 £'000	2006 £'000
Purchases	63	79
Sales	48	28
	<b>111</b>	<b>107</b>

	2007 £'000	2006 £'000
<b>10 Debtors, amounts falling due within one year</b>		
Amounts due from stockbrokers	15	1,779
Net dividends and interest receivable	273	292
Other debtors and prepayments	19	146
	<b>307</b>	<b>2,217</b>

## Notes to the Financial Statements continued

### 11 Creditors, amounts falling due within one year

#### (a) Bank loan

In November 2006 the Company entered into a new three year revolving credit agreement facility with ING bank N V. At the year end £10,000,000 remained drawn down at a rate of 6.42375%.

	2007 £'000	2006 £'000
<b>(b) Other creditors</b>		
Amounts due to stockbrokers	376	–
Investment management fee	116	386
Interest payable	10	628
Sundry creditors	71	189
	<b>573</b>	<b>1,203</b>

### 12 Creditors, amounts falling due after more than one year

	2007 £'000	2006 £'000
Repayable in more than 5 years		
8.375% Debenture Stock 2022	–	15,000
Unamortised Debenture Stock premium and issue expenses	–	(144)
	<b>–</b>	<b>14,856</b>

On 1 December 2006 and in accordance with the proposals regarding the Company announced on 24 October 2006, the Company repaid the Debenture Stock in its entirety at a cost of £21,463,500 which includes a premium of £6,463,500. This premium has been included in the finance costs on the Income Statement.

### 13. Called up share capital

	2007 £'000	2006 £'000
<b>Authorised</b>		
104,000,000 ordinary shares of 5p each (2006 – 20,800,000 ordinary shares of 25p each)	<b>5,200</b>	<b>5,200</b>
<b>Allotted, called up and fully paid</b>		
49,327,321 ordinary shares of 5p each (2006 – 16,273,719 ordinary shares of 25p each)	<b>2,466</b>	<b>4,068</b>

An Extraordinary General Meeting of the Company held on 24 November 2006 approved the proposals announced by the Company on 24 October 2006. The tender offer for up to 30% of the issued ordinary shares was fully subscribed and 4,882,087 shares were repurchased and cancelled by the Company at a total cost of £36,332,126.

On 30 November 2006, there was a sub-division of the remaining issued ordinary shares of 25p each into 5 ordinary shares of 5p each.

In addition, a bonus issue of new subscription shares was completed on the basis of 15 new subscription shares for every 100 ordinary shares resulting from the ordinary share sub-division. Each subscription share confers the right to subscribe for, or convert into, one ordinary share on 28 February in any of the years 2007 to 2012 (inclusive) at a price of 170p per share. On 28 February 2007, 11,717 subscription shares were exercised, leaving 8,531,779 subscription shares in issue.

During the year an additional 7,642,556 (2006 – nil) ordinary shares of 5p each were bought back for cancellation at a total cost of £11,874,848 (2006 – £nil) including expenses.

14 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities	2007 £'000	2006 £'000
Net return on ordinary activities before finance costs and taxation	9,619	34,695
Adjustment for		
Gains on investments	(7,558)	(32,546)
Decrease/(increase) in accrued income	19	(18)
Decrease in other debtors	3	140
(Decrease)/increase in other creditors	(270)	248
<b>Net cash inflow from operating activities</b>	<b>1,813</b>	<b>2,519</b>

15 Analysis of changes in cash during the year	2007 £'000	2006 £'000
Opening balance	367	1,225
Net cash inflow/(outflow)	19	(858)
<b>Closing balance</b>	<b>386</b>	<b>367</b>

16 Analysis of changes in net funds	At 1 November 2006 £'000	Cash flow £'000	Amortisation of issue expenses and premium £'000	At 31 October 2007 £'000
Cash and short term deposits	367	19	–	386
UK Treasury Bills	19,064	(14,101)	–	4,963
AAA Money Market funds	10,915	(6,565)	–	4,350
Bank loan	–	(10,000)	–	(10,000)
Debt due after more than one year	(14,856)	15,000	(144)	–
<b>Net funds/(debt)</b>	<b>15,490</b>	<b>(15,647)</b>	<b>(144)</b>	<b>(301)</b>

#### 17 Net asset value per share

Equity shareholders' funds have been calculated in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'. The analysis of equity 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 –

	2007	2006
Equity shareholders' funds	£82,364,000	£131,397,000
Adjusted net assets	£82,364,000	£131,253,000
Number of equity shares in issue at year end	49,327,321	81,368,595

	P	P
Equity shareholders' funds per share	166 97	161 48
Less Unamortised Debenture Stock premium and issue expenses	–	(0 17)
<b>Adjusted net asset value per share</b>	<b>166 97</b>	<b>161 31</b>

The net asset value per share and the number of ordinary shares in issue at 31 October 2006 have been re stated to reflect the sub division of the Company's share capital (see note 13)

## Notes to the Financial Statements continued

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

	2007 £'000	2006 £'000
Opening adjusted net assets	131,253	100,362
Capital return for the year	(53)	30,301
Revenue on ordinary activities after taxation	2,432	3,128
Dividends appropriated in the year	(2,631)	(2,547)
Movement in unamortised Debenture Stock premium and issue expenses	144	9
Issue of subscription shares	20	–
Corporate restructuring costs	(595)	–
Share buybacks	(48,206)	–
Closing net assets	<b>82,364</b>	<b>131,253</b>

The 31 October 2006 net asset value per share, adjusted to include the Debenture Stock at a market value of £20,214,000 rather than at par, was 154.90p, after adjusting for the 5 for 1 share sub division

### 18 Risk management, financial assets and liabilities

#### Risk management

The major risks associated with the Company are market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement, gearing risk, and to a lesser extent 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 Board has provided the Manager with guidelines and limits for the management of market risk, gearing and financial assets and liabilities.

#### Market risk

Market risk arises from changes in interest rates, valuations accorded 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.

#### Gearing

It is the Company's policy to increase its exposure to equity market price risk through the judicious use of borrowings. When borrowed funds are invested in equities, the effect is to magnify the impact on shareholders' funds of changes – both positive and negative – in the value of the portfolio.

The Board regulates the overall level of gearing by raising or lowering cash balances and is also able, if the circumstances warrant, to use derivatives or to purchase fixed interest securities in order to offset the effect of gearing.

#### Financial assets and liabilities

The Company's financial instruments comprise equity investments, cash balances, AAA Money Market funds, Treasury Bills and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement.

Non-current asset investments (see note 9) are valued at closing trade prices which equate to their fair values. The fair values of all other assets and liabilities, other than the Debenture Stock (see note 12), are represented by their carrying values in the Balance Sheet.

The Company places funds with authorised deposit takers from time to time and is therefore potentially at risk from the failure of any such institution of which it is a creditor.

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## **19 Contingent assets**

The European Court of Justice has decided that management fees should be exempt from VAT. We understand that HMRC has now decided not to appeal against this case to the UK VAT Tribunal and therefore protective claims which have been made in relation to the Company will be processed in due course. The Board is currently in the process of quantifying the potential repayment that should be due. However, the amount the Company will receive, the period to which it will refer, and the timescale for receipt are all uncertain and hence the Company has made no provision in these financial statements for any such repayment.

# Marketing Strategy

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Dunedin Smaller Companies Investment Trust PLC contributes to the marketing programme run by the Aberdeen Group on behalf of a number of investment trusts under its management. Under this agreement the Company's contribution is matched by AAM.

The purpose of the Programme is to communicate effectively with existing shareholders and gain more new shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares.

These aims can be met in several ways:

## Investor relations programme

AAM runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month institutional investors and prospects receive a Manager's report on your Company that includes detailed performance analysis.

## Newsletter

The 'Bulletin' newsletter, an informed commentary on markets and investment trusts managed by the Aberdeen Group, is distributed free of charge.

## Public relations

AAM undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

## Shareholder services

AAM runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately.

The Marketing Programme is under the direction of AAM's Head of Investor Relations for Investment Trusts, who has considerable experience in the marketing and communications of investment products. He is supported by a team of marketing professionals.

## Internet

The AAM Investment Trusts web site contains details of closed end funds and investment companies managed or advised by the Aberdeen Group.

Dunedin Smaller Companies Investment Trust PLC also has its own dedicated website [www.dunedinsmaller.co.uk](http://www.dunedinsmaller.co.uk). This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports. The site is continuously being evaluated for improvement.

It is intended that ongoing Programme activities in these various fields, both proactive and supportive, will assist the Company to increase and maintain its Shareholder base, improve liquidity and sustain ratings.

The Company is committed to a close monitoring of the Programme and the Head of Investor Relations for Investment Trusts reports to the Board and provides a written summary quarterly.

If you have any questions about your Company, the Manager or performance, please telephone the AAM Customer Services Department (direct private investors) on 0500 00 00 40 or our Broker Desk on 0800 592 487 (Institutions and IFAs). Alternatively, internet users may email AAM at [inv.trusts@aberdeen-asset.com](mailto:inv.trusts@aberdeen-asset.com) or write to Aberdeen Investment Trusts, Block C, Western House, Lynchwood Business Park, Peterborough PE2 6BP.

# How to Invest in Dunedin Smaller Companies Investment Trust PLC

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## Direct

Investors can buy and sell shares in Dunedin Smaller Companies Investment Trust PLC directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through the Investment Trust Share Plan, Investment Trust ISA and Investment Trust Pension.

## Aberdeen's Investment Trust Share Plan

Aberdeen Asset Managers Limited ("Aberdeen") runs a Share Plan (the "Plan") which covers a number of investment companies under its management including Dunedin Smaller Companies Investment Trust PLC. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid/offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250 per trust, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor needs to invest in the Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

## Aberdeen's Investment Trust Individual Savings Account

The Aberdeen Investment Trust ISA (the "ISA") has been available from 6 April 1999. It aims to generate income and/or capital growth within a tax efficient environment. Investors can hold up to two components within an ISA: stocks and shares (including Investment Trusts) and cash. Aberdeen offers both a Mini and Maxi stocks and shares ISA but does not offer the cash component.

### Maxi ISA

The Maxi ISA offers a wide range of Aberdeen managed or advised Investment Companies. The Maxi ISA does not have a cash component. An investment of up to £7,000 can be made in the tax year 2007/2008.

### Mini ISA

Aberdeen offers a Mini ISA which will enable investors to invest up to £4,000 in Dunedin Smaller Companies Investment Trust PLC in the tax year 2007/2008. There are no brokerage or initial charges for the ISA, although investors will suffer the bid/offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT. The annual ISA management charge is £24 + VAT, calculated monthly and deducted from income half yearly. Under

current legislation, trusts can grow free of income or capital gains tax. In the case of dividends from equity assets held within an ISA or a PEP, a 10% tax credit was reclaimed until 5 April 2004, when the tax credit was abolished.

## Aberdeen's Investment Plan for Children

Aberdeen also offers an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including Dunedin Smaller Companies Investment Trust PLC. Anyone can invest in the Children's Plan, including parents, grandparents and family friends. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid/offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor needs to invest in a Children's Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

## PEP Transfer

PEPs are an easy way to make medium and long term tax efficient investments in stock markets. All income and capital gains are free of tax. Since 5 April 1999 no further subscriptions can be made into a PEP. You can however, transfer existing PEPs to Aberdeen. The minimum lump sum for a PEP transfer is £1,000 and is subject to a minimum per trust of £250.

## 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 a Personal Pension Plan. Contributions can be made regularly or by lump sums, and there are low minimum investment amounts.

## Trust Information

If investors would like details of Dunedin Smaller Companies Investment Trust or information on the Share Plan, ISA or Pension please telephone 0500 00 00 40 or write to Aberdeen Investment Trusts, Block C, Western House, Lynchwood Business Park, Peterborough PE2 6BP or e-mail at [inv.trusts@aberdeen-asset.com](mailto:inv.trusts@aberdeen-asset.com)

## Keeping you Informed

The Company's share price appears under the heading 'Investment Companies' in the Financial Times, and other national newspapers.

## How to Invest in Dunedin Smaller Companies Investment Trust PLC continued

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For internet users, detailed data on Dunedin Smaller Companies Investment Trust, including price, performance information and a monthly fact sheet is available from the Trust's website ([www.dunedinsmaller.co.uk](http://www.dunedinsmaller.co.uk)) and the TrustNet website ([www.trustnet.co.uk](http://www.trustnet.co.uk))

Equiniti (formerly Lloyds TSB Registrars) also have a website ([www.shareview.co.uk](http://www.shareview.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

Equiniti Limited  
Aspect House  
Spencer Road, Lancing  
West Sussex BN99 6DA  
Telephone 0870 601 5366  
Textphone 0870 600 3950  
Website [www.shareview.co.uk](http://www.shareview.co.uk)

### Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact  
Telephone 0500 00 00 40  
Email [inv.trusts@aberdeen-asset.com](mailto:inv.trusts@aberdeen-asset.com)

For information on the Share Plan, ISA and PEP, please contact

Aberdeen Investment Trust Administration  
Block C, Western House  
Lynchwood Business Park  
Peterborough, PE2 6BP  
Telephone 0500 00 00 40

Pension Administrator  
Edinburgh Pension Centre  
Capita SIP Services  
141 Castle Street  
Salisbury  
Wiltshire SP1 3TB  
Telephone 0800 13 70 79

The above information has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Services Authority

# Glossary of Terms and Definitions

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**Actual Gearing Ratio**

Fixed assets divided by Net Asset Value (Articles basis)

**Discount**

The amount by which the market price per share of an investment trust is lower than the net asset value per share  
The discount is normally expressed as a percentage of the net asset value per share

**Dividend Yield**

The annual dividend expressed as a percentage of the share price

**Earnings per share**

Revenue attributable to equity shareholders divided by the weighted average number of ordinary shares

**Net Asset Value (debt at par)**

The value of total assets less liabilities. Liabilities for this purpose include current and long term liabilities and are valued at the nominal or par value. To calculate the net asset value per ordinary or capital share, the current repayment values of all the other classes of share are treated as liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share

**Net Asset Value (debt at market value)**

The value of total assets less liabilities calculated as above, but valuing debentures at their current market value

**Potential Gearing**

Total assets divided by Net Asset Value (Articles basis)

**Prior Charges**

The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment

**Total Assets**

Total Assets less current liabilities (before deducting prior charges as defined above)

**Total Expense Ratio**

Calculated as the total of the investment management fee (excluding performance fee) and administration expenses divided by the average of shareholders' funds at the start and end of the financial year

**Total Return**

Total Return involves reinvesting the net dividend in the month that the share price goes up. The NAV Total Return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date

# Notice of Annual General Meeting

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Notice is hereby given that the eightieth Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at The Balmoral Hotel, 1 Princes Street, Edinburgh EH2 2EQ on Thursday 7 February 2008 at 12 noon, for the following purposes

To consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 7 inclusive will be proposed as Ordinary Resolutions and Resolutions 8 to 10 will be proposed as Special Resolutions

## Ordinary Business

- 1 To receive the reports of the Directors and auditors and the financial statements for the year ended 31 October 2007
- 2 To approve the Directors' remuneration report for the year ended 31 October 2007
- 3 To propose a final dividend of 2.50p on the ordinary shares
- 4 To re-elect Mr R Entwistle as a Director of the Company
- 5 To re-appoint KPMG Audit Plc as auditors of the Company
- 6 To authorise the Directors to fix the remuneration of the auditors for the year to 31 October 2008

## Special Business

- 7 THAT with effect from the time of the passing of this resolution the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985 (the "Act")) up to an aggregate amount of £803,729 representing approximately 33% of the present issued share capital during the period expiring at the conclusion of the next Annual General Meeting of the Company in 2009, but so that this authority shall allow the Company and its Directors to make offers or agreements before such expiry which would or might require such securities to be allotted after such expiry and the Directors may make such offers or agreements as if such expiry had not occurred
- 8 THAT subject to the passing of resolution number 7 set out above, the Directors be and are hereby empowered, pursuant to Section 95(1) of the Act, to allot equity securities (within the meaning of Section 94(2) and 94(3A) of the Act) for cash pursuant to the authority conferred by resolution number 7 as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities
  - (i) (otherwise than pursuant to sub paragraph (ii) below) which are, or are to be wholly paid up in cash, at the price of not less than the net asset value per share at allotment, as determined by the Directors, up to an aggregate nominal value of £121,777, and
  - (ii) in connection with issues by way of rights in favour of all holders of ordinary shares where the equity securities respectively attributable to the interests of all such holders are either proportionate (as nearly as may be) to the respective number of ordinary shares held by them on the record date of such allotment or otherwise allotted in accordance with the right conferred on such equity securities (but subject in either case to such exclusions or other arrangements or legal problems under the laws of or requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever) at a price of not less than the net asset value per share at allotment, as determined by the Directors,and shall expire at the conclusion of the Annual General Meeting of the Company in 2009, but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry and the Directors may make such offers or agreements as if such expiry had not occurred
- 9 THAT, in substitution for any existing authority under Section 166 of the Companies Act 1985 (the "Act"), the Company be and it is hereby generally and unconditionally authorised, in accordance with Section 166 of the Act, to make market purchases (within the meaning of Section 163 (3) of the Act) of fully paid ordinary shares of 5p each in the capital of the Company ('ordinary shares') provided that
  - (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased shall be 14.99% of the issued ordinary share capital of the Company as at the date of the passing of this resolution,
  - (ii) the minimum price which may be paid for an ordinary share shall be 5p (exclusive of expenses),
  - (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the higher of

- a) 5% above the average of the market values of the ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the ordinary shares for the five business days immediately preceding the date of purchase, and
- b) the higher of the price of the last independent trade in ordinary shares and the highest current independent bid for ordinary shares on the London Stock Exchange, and
- (iv) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract or contracts

10 THAT, in substitution for any existing authority under Section 166 of the Companies Act 1985 (the "Act"), the Company be and it is hereby generally and unconditionally authorised, in accordance with Section 166 of the Act, to make market purchases (within the meaning of Section 163 (3) of the Act) of fully paid subscription shares of 0.001p each in the capital of the Company ('subscription shares') provided that

- (i) the maximum aggregate number of subscription shares hereby authorised to be purchased shall be 14.99% of the issued subscription shares as at the date of the passing of this resolution,
- (ii) the minimum price which may be paid for a subscription share shall be 0.001p (exclusive of expenses),
- (iii) the maximum price (exclusive of expenses) which may be paid for a subscription share shall be the higher of
  - a) 5% above the average of the market values of the subscription shares (as derived from the Daily Official List of the London Stock Exchange) for the subscription shares for the five business days immediately preceding the date of purchase, and
  - b) the higher of the price of the last independent trade in subscription shares and the highest current independent bid for subscription shares on the London Stock Exchange, and
- (iv) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase subscription shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of subscription shares pursuant to any such contract or contracts

Registered office  
Donaldson House  
97 Haymarket Terrace  
Edinburgh EH12 5HD

  
 By order of the Board  
**Aberdeen Asset Management PLC**  
 Secretary  
 28 December 2007

## Notes

- (i) A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote on his/her behalf. A proxy need not be a member of the Company.
- (ii) A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to shares. A member may not appoint more than one proxy to exercise rights attached to any one share.
- (iii) A form of proxy for use by shareholders is enclosed with these accounts. Completion and return of the form of proxy will not prevent any shareholder from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any Power of Attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy of such power or authority at the address stated thereon, so as to be received not less than 48 hours before the time of the meeting.
- (iv) In accordance with Section 325 of the Companies Act 2006, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this notice of meeting are hereby informed, in accordance with Section 149 (2) of the Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

## Notice of Annual General Meeting continued

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- (v) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the register of members of the Company as at 6 00pm on 5 February 2008 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the register of members after 6 00pm on 5 February 2008 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
- (vi) There are special arrangements for holders of shares through the Share Plan, Investment Trust PEP/ISA and Investment Trust Pension. These are explained in the 'Letter of Direction' which such holders will have received with this report.

# Corporate Information

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## Directors

The Earl of Dalhousie, Chairman  
T J K Barnes  
R M Entwistle  
N M Yarrow

## Manager and Registered Office

Aberdeen Asset Managers Limited  
Donaldson House  
97 Haymarket Terrace  
Edinburgh EH12 5HD  
Telephone 0131 313 1000

Company Registration Number SC 14692

## Stockbrokers

Intelli Stockbrokers  
63 Queen Victoria Street  
London EC4N 4UA

## Registrars

Equiniti Limited  
(Formerly Lloyds TSB Registrars)  
Aspect House  
Spencer Road, Lancing  
West Sussex BN99 6DA  
Shareholder Helpline 0870 601 5366  
(Calls charged at National Call Rate)

## Auditors

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

## Bankers & Custodian Bankers

The Bank of New York Mellon  
One Canada Square  
London E14 5AL

## Website

[www.dunedinsmaller.co.uk](http://www.dunedinsmaller.co.uk)

# Your Company's History

The Company was incorporated on 19 July 1927

## Issued share capital at 31 October 2007

<b>49,327,321</b>	Ordinary 5p shares
<b>8,531,779</b>	Subscription shares

## Issued share capital at 14 December 2007

<b>48,710,821</b>	Ordinary 5p shares
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## Capital History

<b>7 May 1997</b>	£15,000,000 raised via a 25 year 8 3/4% Debenture issue
<b>6 July 2000</b>	100,000 ordinary shares purchased for cancellation
<b>15 March 2002</b>	150,000 ordinary shares purchased for cancellation
<b>3 August 2004</b>	276,281 ordinary shares purchased for cancellation
<b>29 November 2006</b>	Pursuant to a Tender Offer for up to 30% of the ordinary shares in issue, 4,882,087 ordinary shares were purchased by tender and cancelled at 740 49p per share
<b>30 November 2006</b>	Sub division of ordinary shares of 25p each into five ordinary shares of 5p each
<b>30 November 2006</b>	Bonus Issue of 8,543,496 subscription shares
<b>1 December 2006</b>	£15,000,000 8 3/4% Debenture Stock 2022 repaid at a price of £143 09 per £100 nominal of Debenture Stock
<b>28 February 2007</b>	11,717 subscription shares converted into 5p ordinary shares
<b>Year ended 31 October 2007</b>	7,642,556 ordinary shares purchased for cancellation
<b>Since 31 October 2007</b>	616,500 ordinary shares purchased for cancellation

# Dunedin Smaller Companies Investment Trust PLC

(for use by holders of ordinary shares)

## Form of Proxy

(For use at the Annual General Meeting on 7 February 2008)

I/We \_\_\_\_\_

of \_\_\_\_\_

BLOCK  
CAPITALS  
PLEASE

being (a) member(s) of the above named company, hereby appoint the Chairman of the Meeting (see note 1)

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 7 February 2008 at 12 00 noon and at any adjournment thereof

My/our proxy is to vote as indicated by an 'X' below in respect of each resolution set out in the notice convening the Meeting

Resolutions	1	2	3	4	5	6	7	8	9	10
For										
Against										
Vote withheld										

Signed \_\_\_\_\_

Date \_\_\_\_\_

### Notes

- 1 If you wish to appoint as your proxy some person other than the Chairman of the Meeting please insert in block capitals the full names of the person of your choice, delete the words 'the Chairman of the Meeting' and initial the alteration. A proxy need not be a member of the company. In accordance with Section 325 of the Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the Act.
- 2 In the case of a Corporation, this Form of Proxy must be under seal or signed by a duly authorised officer or attorney.
- 3 In the absence of any instruction on the resolution referred to above, your proxy will vote or abstain as he or she thinks fit. Your proxy will also vote or abstain as he or she thinks fit on any matter coming before the meeting.
- 4 To be valid, this Form of Proxy, together with the Power of Attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or attorney, must be deposited at the offices of the company's registrars, Equiniti Ltd, at the address overleaf so as to be received not later than 48 hours before the time appointed for the Meeting.
- 5 In the case of joint holders, the signature of any one joint holder is sufficient. If more than one joint holder tenders a vote in person or by proxy, the vote of the person whose name stands first in the register will be accepted to the exclusion of the votes of the other joint holders.
- 6 If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence. To change your proxy instructions simply submit a new proxy appointment using the methods set out in these notes.
- 7 Completion of this Form of Proxy will not prevent a member from attending the Meeting and voting in person should he so wish.
- 8 The 'vote withheld' option is provided to enable you to abstain on any particular resolution. It should be noted that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'for' and 'against' the resolution.

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