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Annual Report and Accounts
31 October 2008

DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

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Financial Highlights

	2008	2007
Net asset value capital return	**–46.0%**	+7.8%
Share price	**–48.2%**	–1.4%
FTSE SmallCap Index (ex Investment Companies)	**–54.0%**	+2.2%
Dividend per share[A]	**+5.9%**	+19.7%

[A]reflects the dividends declared for the period in which they were earned

Net asset value per share with debt at fair value
At 31 October - pence

Mid-market price per share
At 31 October - pence

Dividends per share
pence

Financial Calendar

17 December 2008	Announcement of results for year ended 31 October 2008
5 February 2009	Annual General Meeting
9 February 2009	Final ordinary dividend payable for year ended 31 October 2008
June 2009	Announcement of interim results for six months ending 30 April 2009
July 2009	Interim ordinary dividend payable for year ending 31 October 2009

Corporate Summary

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") or the "Manager".

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 50 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 have 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 2008, the Company has a capital structure comprising ordinary shares of 5p and subscription shares of 0.001p. The Company has an £8 million 3 year revolving credit facility (of which £8 million was drawn down as at 15 December 2008).

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 £8 million of borrowings without reference to the Board.

Total Assets and Net Asset Value

The Company had total assets of £51.2 million and a net asset value of 90.08p per ordinary share at 31 October 2008.

Market Capitalisation

The Company had a market capitalisation of £35.3 million at 31 October 2008.

Websites

www.dunedinsmaller.co.uk
www.aberdeen-asset.com

Company Secretary

Aberdeen Asset Management PLC, 40 Princes Street, Edinburgh EH2 2BY
Email: company.secretary@invtrusts.co.uk

Customer Services

Freephone: 0500 00 00 40
(open Monday - Friday 9am - 5pm)

Email: inv.trusts@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 39 to 44 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

Shares in the Company can be bought in the open market through a stockbroker. They can also be purchased through the Aberdeen savings schemes and fully qualify for inclusion within tax-efficient ISA wrappers (see page 46).

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 £315,000 was earned in respect of the year ended 31 October 2008). 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

The Earl of Dalhousie
Chairman

Investors in UK smaller companies have experienced one of the weakest periods on record in the past year. The crisis in the US sub-prime mortgage market triggered a global re-assessment of risk and a significant deterioration in investor confidence. Financial institutions incurred severe losses, the inter-bank lending market dried up and credit facilities were either withdrawn or re-priced.

The Bank of England, the US Federal Reserve, the European Central Bank and other central banks took steps to inject liquidity into the banking sector to head-off the liquidity crisis. However, this proved to be too little, too late and a number of well-known financial institutions succumbed to bankruptcy, recapitalisation or nationalisation. In this environment of negative news-flow, and with increasing signs of economic recession, equity prices were marked sharply lower, particularly in September and October. Interest rates in the UK were reduced on four occasions during the year under review, with further cuts of 1.5% in November and 1% in December, taking base rates to 2.0%, highlighting the concerns over the economic prospects for the UK.

The share prices of smaller companies fell sharply both in absolute terms and in relation to the broader equity markets. Whilst your Company has out-performed its benchmark, this will provide little comfort for shareholders given the magnitude of the declines. The Company's net asset value per share fell by 46.0% compared to falls of 54.0% in the FTSE SmallCap Index (excluding Investment Companies) and 34.9% in the FTSE 100 Index on a capital return basis. The Company's share price fell by 48.2% to 73.75p. The subscription shares which are listed on the London Stock Exchange had a closing price of 2.75p per share at 31 October 2008.

However, revenue return per share for the year increased from 4.47p to 5.22p and the Board is pleased to announce that it is recommending a final dividend of 2.65p (2007 - 2.50p) which will be paid on 9 February 2009 to shareholders on the register on 16 January 2009. When combined with the interim dividend of 1.85p, the total dividend for the year will amount to 4.50p (2007 – 4.25p), an increase of 5.9%.

During the year, the Company repurchased 1,407,500 ordinary shares, at a total cost of £1.6 million and at discounts to NAV between 13% and 24%. The Board is conscious of its intention to maintain the discount at not more than 7.5%. However, this has proved very difficult to maintain in the current market conditions and the weakness in share prices referred to above led to a sharp de-rating of smaller company investment trusts. The Directors will continue to monitor the Company's discount with that of its peer group and will use the Company's share buyback powers, subject to market conditions, when it feels to be appropriate.

During the year, the Company repaid £2 million of the borrowings available under the revolving credit facility with ING and, at the year end, £8 million remained drawn down, although none of these funds were invested in equities at the year end.

Our investment portfolio has continued to out-perform the benchmark by over 6% in the past year. The portfolio is constructed to deliver both capital and income growth, and we remain focused 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.

Global equity markets are currently very volatile. The reasons for this are the crisis of confidence in financial institutions and the deteriorating outlook for the economy. This will undoubtedly have a negative impact on corporate profitability. More positively, equity markets are not expensive by historic standards, and valuations are now more favourable, following the recent under-performance of the smaller company sector. An improvement in investor confidence is required, however, before the smaller company sector returns to favour.

Since the year end, equity markets have fallen further, 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 12.1% and the Company's NAV has fallen by 5.7% in the period from 31 October 2008 to15 December 2008.

VAT on Management Fees

As shareholders are aware from my previous statements, HM Revenue & Customs ("HMRC") conceded defeat over the charging of VAT on the management fees incurred by UK investment trusts. Whilst progress on reclaiming all of these sums has been slow, these results reflect a sum of £580,000 representing the VAT charged on our management fees between 2004 and 2007. This has been split in accordance with the Company's accounting policy, with £506,000 being credited to capital and £74,000 being credited to revenue. We appreciate the Manager's assistance on this matter and, in due course, we will be able to recognise further sums, once there is more certainty as to the amounts recoverable by the Manager in respect of the VAT incurred on management fees during the periods from 2001 to 2003 and 1990 to 1996.

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 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.

Annual General Meeting

The Annual General Meeting this year will be held at Discovery Point, Dundee on 5 February 2009, 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 Annual General Meeting.

The Earl of Dalhousie
Chairman
16 December 2008

Manager's Review

Smaller companies have experienced a torrid 2008. Equity markets have fallen around the world, and smaller companies have under-performed their larger counterparts. Positive returns were posted in only four months of the financial year, and those were completely outweighed by the negative returns experienced throughout the rest of the year, especially in September and October. The Company has out-performed the index over the year, with the net asset value per share declining by 46.0% compared to a decline in the benchmark of 54.0%. This out-performance resulted from stock selection.

Market Background

The year started badly with the problems in the US housing and credit markets leading to increased risk aversion among investors and higher volatility in markets. In the UK, the Monetary Policy Committee (MPC) was preoccupied with the rising threat from inflation, whereas other monetary authorities, and the US Federal Reserve in particular, were able to respond to the tightness in the debt markets by reducing interest rates. In the UK, the authorities were slower to act, although the MPC did reduce interest rates by 25 basis points in December 2007. The market began to recognise that smaller company profits growth would inevitably slow over the course of 2008, and smaller companies moved to a valuation discount compared to larger companies - the first time that this had happened for several years.

Any hopes that the New Year would bring some respite were quickly dashed, with January seeing equities around the world record one of their worst ever starts to a year. In the US, the Federal Reserve took decisive action cutting interest rates twice, by a total of 1.25% over the month, and this provided some respite. In the UK, it was clear that we lacked not only the monetary flexibility of other countries, but also the ability to provide anything approaching the fiscal stimulus that was being provided in the US.

February was a better month as the MPC reduced UK interest rates by another 25 bps, and the early newsflows from companies indicated that 2007 earnings were generally in line with expectations. Many companies demonstrated their confidence with welcome increases in their dividends. There were signs of life in the merger and acquisition markets, with both CODA and Expro announcing that they had received bid approaches - both companies were held in the portfolio. The improvement was however short lived, as the March reporting season was a mixed bag and resulted in a marked deterioration in earnings forecasts for smaller companies.

Volatility remained a feature of markets during April and May, as investors were caught in the crosswinds of lower interest rates from the MPC and the Federal Reserve, weaker economic data in the form of higher inflation and further declines in house prices. By June, the oil price was reaching new highs almost on a daily basis, inflation breached 3% and the Governor of the Bank of England was forced to write an explanatory letter to the Chancellor. The economic data remained resolutely negative through the summer, and the prospect of recession became an increasingly common feature in analysts' forecasts. Investors became even more risk averse.

Then, in September, investors had to absorb the impact of the first significant victims of the stress within the financial system. In the US, AIG and the mortgage companies Fannie Mae and Freddie Mac were effectively nationalised, although the authorities allowed Lehman Brothers to be declared bankrupt. The knock-on effects on the financial system were extreme - liquidity evaporated, banks around the world required government capital injections and equity markets plummeted. In October, the US approved a $700bn bail out plan for banks while, in the UK, Bradford & Bingley was nationalised, Alliance & Leicester was acquired by Santander and the UK clearing banks were forced by the Government to recapitalise their balance sheets. As the pressures in the credit market showed no signs of easing, the MPC cut interest rates again in October, despite the Governor of the Bank of England having had to write to the Chancellor again during September, and this was followed in November and December by the dramatic decision to reduce interest rates by a further 2.5% to 2.0%, a level not seen since the 1950s.

Portfolio

In light of the uncertainty facing the markets, the Company maintained an essentially ungeared position over the year. Where gearing was deployed, it was to a limited degree and generally for technical reasons, mainly where we were waiting for the receipt of cash due from takeovers. The Company ended the year in a net cash position.

The year has been a disappointing one for smaller company performance, and the companies the Company holds have not been immune.

There were a number of takeovers in the portfolio this year. These included CODA, Detica, Expro, TDG and Christian Salvesen. It is worth noting though, reflecting the much more difficult market conditions, that there were also failed bids for Chloride Group, Wilmington, White Young Green and Anite.

Outlook

It is remarkable how quickly the market has reversed the view it held only a few months ago. At that time, worries revolved around the impact of high energy and raw material prices, and the dangers posed by inflation. Now there is recognition that emerging market growth is slowing, the developed economies are facing recession, the oil price has more than halved since June and all the talk is of deflation.

Such a rapidly changing environment causes volatility in markets and, by most measures, volatility remains at historic highs. Banks remain unwilling to lend either to each other or to companies. This is occurring at a time when, across industries, trade is slowing at a rapid pace. Investors are concerned less about the likely deterioration in a company's profitability than they are about whether otherwise sound businesses will survive at all. Such an environment makes normal measures of valuation less meaningful.

By most historic measures, there is value in the UK market and in smaller companies. Whilst the above factors remain, and combined with the forced selling that is resulting from the absence of liquidity, it is almost impossible to determine what markets will do next. It is possible to identify substantial value amongst smaller companies if one takes anything but a short term view. We do not know how long this recession will last, but we would expect a number of our holdings to emerge from it in a stronger competitive position.

Our focus will remain on using intensive due diligence to identify companies with clear and transparent earnings and cash flows, strong balance sheets and sound through-cycle prospects, as we believe these will deliver out-performance over the medium term.

Ed Beal
Aberdeen Asset Managers Limited
16 December 2008

Results

Financial Highlights

	31 October 2008	31 October 2007	% change
Total assets less current liabilities (before deducting bank loan)	£51,170,000	£92,364,000	
Equity shareholders' funds (Net Assets)	£43,170,000	£82,364,000	
Share price (mid market)	73.75p	142.50p	(48.2)
Net Asset Value per share	90.08p	166.97p	(46.0)
FTSE SmallCap Index (ex IC's) (capital gains basis)	1,662.39	3,610.99	(54.0)
Discount (difference between share price and net asset value)			
where borrowings are deducted at par	18.1%	14.7%	
Gearing (ratio of borrowing to shareholders' funds)			
Actual gearing ratio	(4.83%)	0.69%	
Potential gearing ratio	18.53%	12.14%	
Dividends and earnings			
Total return per share[A]	(73.59p)	4.37p	
Revenue return per share	5.22p	4.47p	16.8
Dividends per share[B]	4.50p	4.25p	5.9
Dividend cover (including proposed final dividend)	1.16	1.05	
Revenue reserves[C]	£4,831,000	£4,412,000	
Operating costs			
Total expense ratio	1.57%	1.20%	

[A] Measures the total earnings for the year divided by the weighted average number of ordinary shares in issue (see Income Statement).

[B] The figures for dividends per share reflect the years in which they were earned (see note 7 on page 35).

[C] The revenue reserve figure does not take account of the proposed final dividend amounting to £1,268,000 (2007 – £1,218,000).

Performance

	1 year % return	3 year % return	5 year % return
Capital return			
Share price	(48.2)	(28.1)	8.0
Net Asset Value per share	(46.0)	(27.0)	(1.8)
FTSE SmallCap Index (ex IC's)	(54.0)	(44.0)	(33.3)
Total return (Capital return plus dividends reinvested)			
Share price	(46.0)	(20.8)	27.4
Net Asset Value per share	(44.1)	(20.6)	12.4
FTSE SmallCap Index (ex IC's)	(52.2)	(39.1)	(24.1)

Dividends

	Rate per share	xd date	Record date	Payment date
Proposed final dividend 2008	2.65p	14 January 2009	16 January 2009	9 February 2009
Interim dividend 2008	1.85p	9 July 2008	11 July 2008	25 July 2008
2008	**4.50p**			
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
2007	**4.25p**			

Performance

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

Five years to 31 October 2008

Share Price Discount to NAV (%)

Five years to 31 October 2008

Ten Year Financial Record

Year to 31 October	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue available for ordinary dividends (£'000)	2,576	2,510	2,243	1,647	2,002	2,403	2,795	3,128	2,432[A]	2,517
Per share										
Net revenue return (p)	3.1	3.0	2.7	2.0	2.4	2.9	3.4	3.8	4.5	5.2
Net dividends paid/proposed (p)	2.5	2.6	2.6	2.6	2.6	2.8	3.1	3.6	4.25	4.5
Net asset value (p)	101.5	134.8	95.9	68.9	90.1	102.6	123.3	161.3	167.0	90.1
Total return (p)	32.7	35.6	(23.7)	(24.4)	23.8	14.8	21.8	41.1	4.4	(73.6)
Shareholders' funds (£'000)	85,509	112,708	80,321	57,224	74,752	83,627	100,515	131,397	82,364	43,170

[A] The Tender Offer in November 2006 had an impact on the income account.

The per share values for the years 1999 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 2008

Company	Sector classification	Market value 2008 £'000	Total assets %	Market value 2007 £'000
Dechra Pharmaceuticals				
Dechra develops, manufactures and distributes veterinary pharmaceuticals. They focus on the companion animal market. Veterinary pharmaceuticals are much less susceptible to generic competition than human drugs. The company has excellent opportunities to expand further into both Europe and the US.	Pharmaceuticals & Biotechnology	1,817	3.6	1,590
McBride				
McBride is the UK's leading manufacturer of own label personal and household goods. They have a growing European business. Own label markets have been exhibiting growth for some time, this trend is being accentuated by the current tough economic conditions.	Household Goods	1,609	3.1	1,209
Ultra Electronics				
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	1,463	2.9	1,790
Bloomsbury Publishing				
Bloomsbury is best known for publishing the Harry Potter series of books. The company publishes in the adults, childrens and reference areas of the market with operations in the UK, US and Germany. The company benefits from a very strong balance sheet.	Media	1,222	2.4	1,254
Chemring Group				
Chemring specialises in the manufacture of countermeasures for military customers. There is increasing use of these devices as armed forces seek to protect their assets. The company also has a rapidly growing energetics business.	Aerospace & Defence	1,145	2.2	2,129
Restaurant Group				
Restaurant Group is an operator of restaurants with an emphasis on leisure parks and airports. Such locations generally have significant barriers to entry with a focus on value for money products the company is benefiting from the trend towards more eating out.	Travel & Leisure	1,125	2.2	1,538
BPP				
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	1,095	2.1	2,147
Savills				
Savills is a residential and commercial property agent. The company has been successful in building an Asian operation and developing a fund management business.	Real Estate	993	1.9	1,597
Victrex				
Victrex is a speciality chemicals company manufacturing a high value added polymer that is used in the automobile, aerospace, electronic and medical markets.	Chemicals	974	1.9	1,374
Mothercare				
Mothercare is the UK's leading provider of pre and post natal clothing and products for both a mother and her baby. They have a rapidly growing international business where their acknowledged expertise has facilitated the development of a valuable franchise.	General Retailers	971	1.9	1,221
Ten largest investments		**12,414**	**24.2**	

Investment Portfolio – Other Investments

As at 31 October 2008

Company	Sector classification	Market value 2008 £'000	Total assets %	Market value 2007 £'000
British Polythene	General Industrials	965	1.9	1,732
Chloride Group	Electronic & Electrical Equipment	953	1.9	2,145
Wilmington Group	Media	926	1.8	1,572
Numis Corporation	General Financials	907	1.8	1,479
Intermediate Capital Group	General Financials	904	1.8	1,242
BSS Group	Support Services	899	1.7	1,598
Morgan Sindall	Construction & Materials	895	1.7	2,430
Mouchel Group	Support Services	871	1.7	1,293
Venture Production	Oil & Gas Producers	849	1.7	1,482
RM	Software & Computer Services	831	1.6	1,093
Twenty largest investments		**21,414**	**41.8**	
Zotefoams	Chemicals	778	1.5	1,031
Menzies (John)	Support Services	749	1.5	2,190
Barr (AG)	Beverages	744	1.5	434
XP Power	Electronic & Electrical Equipment	728	1.4	1,011
Clarke (T)	Construction & Materials	707	1.4	989
Fenner	Industrial Engineering	694	1.4	2,261
Rensburg Sheppards	General Financials	689	1.3	1,055
Management Consulting Group	Support Services	657	1.3	1,027
Huntsworth	Media	650	1.3	1,162
Brammer	Support Services	638	1.2	998
Thirty largest investments		**28,448**	**55.6**	
Low & Bonar	Construction & Materials	631	1.2	1,496
Oxford Instruments	Electronic & Electrical Equipment	617	1.2	531
Greggs	Food & Drug Retailers	611	1.2	689
Hornby	Leisure Goods	605	1.2	1,090
Holidaybreak	Travel & Leisure	582	1.1	1,805
Chaucer Holdings	Non-Life Insurance	552	1.1	-
Anite Group	Software & Computer Services	536	1.1	1,067
Umeco	Aerospace & Defence	533	1.0	745
Weir Group	Industrial Engineering	530	1.0	1,331
Fuller Smith & Turner 'A'	Travel & Leisure	523	1.0	1,135
Forty largest investments		**34,168**	**66.7**	
Unite Group	Real Estate Investment Services	509	1.0	1,407
Laird	Electronic & Electrical Equipment	508	1.0	2,178
Robert Walters	Support Services	503	1.0	1,346
Acal	Support Services	497	1.0	1,089
RPC Group	General Industrials	489	0.9	1,228
Headlam Group	Household Goods	457	0.9	1,202
Care UK	Health Care Equipment & Services	439	0.9	890
White Young Green	Support Services	439	0.9	1,506
SIG	Support Services	423	0.8	1,473
Interserve	Support Services	407	0.8	1,162
Fifty largest investments		**38,839**	**75.9**	

Investment Portfolio – Other Investments continued

Company	Sector classification	Market value 2008 £'000	Total assets %	Market value 2007 £'000
TT Electronics	Electronic & Electrical Equipment	400	0.8	1,261
Bellway	Household Goods	386	0.8	771
Aveva Group	Software & Computer Services	378	0.8	1,096
Forth Ports	Industrial Transportation	327	0.6	959
UTV Media	Media	255	0.5	780
Havelock Europa	Household Goods	218	0.4	755
Ennstone	Construction & Materials	164	0.3	1,288
Avon Rubber	General Industrials	116	0.2	731
Total investments		**41,083**	**80.3**	
Net current assets[A]		**10,087**	**19.7**	
Total assets		**51,170**	**100.0**	

[A] Excludes bank loan of £8,000,000 (2007 – £10,000,000).

Sector Analysis

As at 31 October 2008

		FTSE SmallCap Index (ex IC's) weighting %	Portfolio weightings 31 October 2008 %	31 October 2007 %
Basic Materials	Chemicals	0.53	3.42	2.60
	Mining	1.32	–	–
		1.85	**3.42**	**2.60**
Consumer Goods	Beverages	0.92	1.45	0.47
	Food Producers	4.26	–	–
	Household Goods	2.64	5.22	4.26
	Leisure Goods	0.40	1.18	1.18
		8.22	**7.86**	**5.91**
Consumer Services	Food & Drug Retailers	0.41	1.19	0.76
	General Retailers	3.82	1.90	2.47
	Media	4.12	5.97	5.16
	Travel & Leisure	2.83	4.36	4.85
		11.18	**13.42**	**13.24**
Financials	General Financial	9.40	4.89	4.09
	Life Insurance	1.14	–	–
	Non-life Insurance	2.77	1.08	–
	Real Estate	10.33	2.94	3.25
		23.64	**8.90**	**7.34**
Health Care	Health Care Equipment & Services	3.39	0.86	0.97
	Pharmaceuticals & Biotechnology	7.87	3.55	1.72
		11.26	**4.41**	**2.69**
Industrials	Aerospace & Defence	1.75	6.14	5.05
	Construction & Materials	5.24	4.67	6.71
	Electronic & Electrical Equipment	2.01	6.27	8.25
	General Industrials	0.88	3.07	4.00
	Industrial Engineering	3.40	2.39	3.89
	Industrial Transportation	3.25	0.64	2.86
	Support Services	12.83	14.03	17.92
		29.36	**37.22**	**48.68**
Oil & Gas	Oil & Gas Producers	2.45	1.66	1.60
	Oil Equipment & Services	–	–	1.66
		2.45	**1.66**	**3.26**
Technology	Software & Computer Services	7.20	–	–
	Technology Hardware & Equipment	3.45	3.41	6.07
		10.65	**3.41**	**6.07**
Telecommunications	Fixed Line Telecommunications	1.39	–	–
		1.39	–	–
	Total equities	**100.00**	**80.29**	**89.79**
	Net current assets before borrowings[A]	–	**19.71**	**10.21**
	Total assets less current liabilities	**100.00**	**100.00**	**100.00**

[A] Excludes bank loan of £8,000,000 (2007 – £10,000,000).

Information about the Manager

Dunedin Smaller Companies Investment Trust PLC

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 2008 managed a combined £103.7 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 £4.7 billion under management.

The Investment Team Senior Managers

Ed Beal
Senior 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.

Regional Teams

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.

AAM'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.

Your Board of Directors

The Directors, all of whom are non-executive, and 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: 60
Length of service: 15 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, Management Engagement Committee and Nomination Committee
Remuneration: £20,266
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company 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: 47
Length of service: 5 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, Management Engagement Committee and Nomination Committee
Remuneration: £15,200
All other public company directorships: Dobbies Garden Centres PLC
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company 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: 64
Length of service: 10 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: 7 February 2008
Committee membership: Audit Committee, Management Engagement Committee and Chairman of Nomination Committee
Remuneration: £15,200
All other public company directorships: Adam & Company Group PLC
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 30,000 5p ordinary shares and 4,500 subscription shares

N M Yarrow

Status: Independent Non-Executive Director
Age: 48
Length of service: 10 years, appointed a Director on 21 May 1998
Experience: is a director of NVM Private Equity, a member of the Institute of Chartered Accountants of Scotland and Trustee for Project Scotland
Last re-elected to the Board: 8 February 2007
Committee membership: Chairman of the Audit Committee and Management Engagement Committee and member of the Nomination Committee
Remuneration: £17,733
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 20,000 5p ordinary shares and 3,000 subscription shares

Directors' Report

Business Review

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, the 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 financial 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:

- Net Asset Value
- Share Price
- Discount
- FTSE SmallCap Index (ex Investment Companies)
- Total Expense Ratio

A record of these measures is disclosed on page 8.

The current Directors, as shown in the table on the page 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 2.65p (2008 – 2.50p) is paid on 9 February 2009 to shareholders on the register on 16 January 2009. The ex-dividend date is 14 January 2009.

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 2007. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 31 October 2008 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 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, The Earl of Dalhousie 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 2008 and 1 November 2007 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table on the page opposite. None of the Directors had any non-beneficial interests in the share capital of the Company at 31 October 2008 or 1 November 2007.

	31 Oct 2008		31 Oct 2007	
	Ord 5p	Sub shares	Ord 5p	Sub shares
The Earl of Dalhousie	20,000	3,000	20,000	3,000
T J K Barnes	12,825	1,923	12,825	1,923
R M Entwistle	30,000	4,500	30,000	4,500
N M Yarrow	20,000	3,000	20,000	3,000

The above interests were unchanged as at the date of this report. No contract or arrangement subsisted during the period in which any of the Directors was materially interested. 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 22 to 24.

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 25 and 27.

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 15 December 2008, 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^	11,201,490	23.4
Aberdeen Asset Managers^ *	10,196,849	21.3
(*Includes Windsor Life Assurance)	2,576,827	5.4
Derbyshire County Council	3,400,000	7.1
DC Thomson & Company Ltd	2,030,000	4.2
Legal & General Investment Management Ltd^	1,964,807	4.1

^ 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

Issue of New Shares

Under resolution 7 it is proposed that, in line with common practice, the Directors be authorised to allot up to £789,567 of relevant securities in the Company (equivalent to 15,791,349 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 2010. 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.

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 £119,631 as if Section 89(1) did not apply. This authority will lapse (unless renewed) at the conclusion of the Annual General Meeting in 2010. Ordinary shares would not be issued at a price that is less than the prevailing net asset value.

Share Repurchases
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 (resolutions 9 and 10). 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 2010 (unless previously revoked, varied or renewed by the Company in general meeting).

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 the 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.

Amendment to Articles of Association
The law in relation to companies is currently undergoing a number of changes following the introduction of new companies legislation in the United Kingdom under the Companies Act 2006 ("2006 Act"). The changes are being implemented in stages, with some parts already in force and the final parts due to be implemented in October 2009. Some of the changes will apply automatically to the Company, whilst others will require the Company to take specific steps to take advantage of, or exclude, as the case may be, the effect of the changes.

Resolution 11 is a special resolution relating to the adoption of new Articles of Association ("New Articles") in order to reflect certain provisions of the 2006 Act which are currently in force. Since it is expected that the 2006 Act will not be fully in force until October 2009, there may be further changes to be made to the New Articles at the Company's Annual General Meeting in 2010.

The principal changes proposed to be made to the existing Articles of Association ("Existing Articles") at the Company's Annual General Meeting are detailed in the Appendix on page 52. The proposed New Articles showing all the changes are available for inspection at the Company's registered office from the date of this Annual Report until the close of the Annual General Meeting.

Recommendation
Your Board considers Resolution 11 to be in the best interests of the Company and its members as a whole and is most likely to promote the success of the Company for the benefit of its members as a whole. Accordingly, your Board unanimously recommends that shareholders should vote in favour of Resolution 11 to be proposed at the Annual General Meeting, as they intend to do in respect of their own beneficial shareholdings, amounting to 82,825 ordinary shares.

Additional Information

Where not provided elsewhere in the Directors' Report, the following provides the additional information required to be disclosed by Part 15 of the Companies Act 2006:

There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law (for example, insider trading law).

The Company is not aware of any agreements between shareholders that may result in restriction on the transfer of securities and/or voting rights.

The rules governing the appointment of Directors are set out in the Statement of Corporate Governance on pages 22 to 24. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company following a takeover.

Other than the management and administration contracts with the Manager, further details of which are set out on page 3, the Company is not aware of any contractual or other agreements which are essential to its business which ought to be disclosed in the Directors' Report.

By order of the Board
Aberdeen Asset Management PLC
Secretary, Edinburgh
16 December 2008

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 Combined 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

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship with 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.

Directors have attended Board and Committee meetings during the year ended 31 October 2008 as follows (with their eligibility to attend the relevant meeting in brackets):

Director	Board Meetings	Audit Committee Meetings
The Earl of Dalhousie (Chairman)	4 (4)	2 (2)
T J K Barnes	4 (4)	2 (2)
R M Entwistle	4 (4)	2 (2)
N M Yarrow	4 (4)	2 (2)

Between meetings the Board maintains regular contact with the Manager.

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 is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the first Annual General Meeting following his or her appointment. 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.

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 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. The Board confirms that as at 31 October 2008 there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks, that it has been in place for the year ended 31 October 2008 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Board and accords with the internal control guidance for directors on the Combined Code.

The Board has 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 2008 meeting, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 October 2008 by considering documentation from the Manager, including the internal audit and compliance functions and taking account of events since 31 October 2008. 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 are 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
- 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;

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

The non-audit fee of £4,000 paid to the external auditors during the year was for the interim review. Shareholders have the opportunity at each Annual General Meeting to vote on the appointment of the external auditors for the forthcoming year.

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 are 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

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.

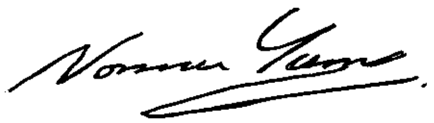
Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Norman Yarrow
Chairman of the Audit Committee
16 December 2008



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 27.

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 2009 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 £20,800, £18,200 and £15,600 for the Chairman, Audit Committee Chairman and remaining Directors respectively effective 1 July 2008.

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:

Director	2008 £	2007 £
The Earl of Dalhousie	20,266	18,203
T J K Barnes	15,200	13,891
R M Entwistle	15,200	13,891
N M Yarrow	17,733	15,558
Total	**68,399**	**61,543**

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 16 December 2008 and signed on its behalf by:

D Valentine

By order of the Board
Aberdeen Asset Management PLC
Secretary, Edinburgh
16 December 2008

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

We have audited the financial statements of Dunedin Smaller Companies Investment Trust PLC for the year ended 31 October 2008 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 25.

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 2008 and of its loss 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
16 December 2008

Income Statement

	Notes	Year ended 31 October 2008 Revenue return £'000	Capital return £'000	Total return £'000	Year ended 31 October 2007 Revenue return £'000	Capital return £'000	Total return £'000
(Losses)/gains on investments	9	–	(37,560)	(37,560)	–	7,558	7,558
Income	2	3,039	–	3,039	3,114	–	3,114
Investment management fee	3	(67)	(515)	(582)	(111)	(566)	(677)
VAT recoverable on investment management fees	19	74	506	580	–	–	–
Administrative expenses	4	(380)	–	(380)	(376)	–	(376)
Net return before finance costs and taxation		2,666	(37,569)	(34,903)	2,627	6,992	9,619
Finance costs	5	(149)	(446)	(595)	(195)	(7,045)	(7,240)
Return on ordinary activities before taxation		2,517	(38,015)	(35,498)	2,432	(53)	2,379
Taxation	6	–	–	–	–	–	–
Return on ordinary activities after taxation		**2,517**	**(38,015)**	**(35,498)**	**2,432**	**(53)**	**2,379**
Return per ordinary share (pence):	8	**5.22**	**(78.81)**	**(73.59)**	**4.47**	**(0.10)**	**4.37**

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.

Balance Sheet

	Notes	As at 31 October 2008 £'000	As at 31 October 2007 £'000
Non-current assets			
Investments at fair value through profit or loss	9	41,083	82,931
Current assets			
Debtors and prepayments	10	912	307
UK Treasury Bills	16	2,963	4,963
AAA Money Market funds	16	–	4,350
Cash and short term deposits	16	6,422	386
		10,297	10,006
Creditors: amounts falling due within one year			
Bank loan	11,16	(8,000)	(10,000)
Other creditors	11	(210)	(573)
		(8,210)	(10,573)
Net current assets/(liabilities)		2,087	(567)
Net assets		**43,170**	**82,364**
Capital and reserves			
Called-up share capital	12	2,396	2,466
Share premium account		24	19
Capital redemption reserve		2,230	2,160
Capital reserve	13	33,689	73,307
Revenue reserve		4,831	4,412
Equity shareholders' funds		**43,170**	**82,364**
Net asset value per ordinary share (pence):	17	**90.08**	**166.97**

The financial statements were approved by the Board of Directors and authorised for issue on 16 December 2008 and were signed on its behalf by:

Dalhousie

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 2008

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve ^ £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2007		2,466	19	2,160	73,307	4,412	82,364
Issue of subscription shares		–	5	–	–	–	5
Purchase of own shares		(70)	–	70	(1,603)	–	(1,603)
Return on ordinary activities after taxation		–	–	–	(38,015)	2,517	(35,498)
Dividends paid	7	–	–	–	–	(2,098)	(2,098)
Balance at 31 October 2008		2,396	24	2,230	33,689	4,831	43,170

For the year ended 31 October 2007

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2006		4,068	–	557	122,161	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		–	–	–	(53)	2,432	2,379
Dividends paid	7	–	–	–	–	(2,631)	(2,631)
Balance at 31 October 2007 (restated)		**2,466**	**19**	**2,160**	**73,307**	**4,412**	**82,364**

^ See note 13 for further details on the capital reserve.

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

	Notes	Year ended 31 October 2008 £'000	Year ended 31 October 2008 £'000	Year ended 31 October 2007 £'000	Year ended 31 October 2007 £'000
Net cash inflow from operating activities	14		2,075		1,813
Servicing of finance					
Interest paid			(604)		(1,250)
Financial investment					
Purchases of investments		(8,086)		(7,738)	
Sales of investments		11,997		49,253	
Net cash inflow from financial investment			3,911		41,515
Equity dividends paid	7		(2,098)		(2,631)
Net cash inflow before use of liquid resources and financing			3,284		39,447
Net cash inflow from management of liquid resources			6,350		20,666
Net cash inflow before financing			9,634		60,113
Financing					
(Repayment)/drawdown of bank loan		(2,000)		10,000	
Repayment of Debenture Stock		–		(21,464)	
Repurchase of own shares		(1,603)		(48,061)	
Issue of subscription shares		5		20	
Corporate restructuring costs		–		(589)	
Net cash outflow from financing			(3,598)		(60,094)
Increase in cash	15		**6,036**		**19**

	Notes	2008 £'000	2007 £'000
Reconciliation of net cash flow to movements in net funds			
Increase in cash as above		6,036	19
Net change in liquid resources		(6,350)	(20,666)
Change in net funds resulting from cash flows		(314)	(20,647)
Repayment of Debenture Stock		–	15,000
Repayment/(drawdown) of bank loan		2,000	(10,000)
Amortised Debenture Stock expenses written off		–	(144)
Movement in net funds in the year		1,686	(15,791)
Opening net (debt)/funds		(301)	15,490
Closing net funds(debt)	16	**1,385**	**(301)**

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements For the year ended 31 October 2008

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).

During the year the Company adopted FRS 29 'Financial Instruments Disclosures'. This standard primarily concerns the disclosure of financial instruments and risks. These disclosures can be found primarily in note 18.

(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.

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 notes 3 and 5).

(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. Gains or losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the Income Statement and are ultimately recognised in the capital reserve.

(d) Dividends payable

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

(e) Capital reserve

Gains or losses on realisation of investments and changes in fair values of investments which are readily convertible to cash, without accepting adverse terms, are transferred to the capital reserve. Any changes in fair values of investments that are not readily convertible to cash are treated as unrealised gains or losses within the capital reserve. The capital element of the management fee and relevant finance costs are charged to this reserve. Any associated tax relief is also credited to this 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 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.

2. Income	2008 £'000	2007 £'000
Income from investments[A]		
UK dividend income	2,424	2,541
Overseas dividend income	85	28
	2,509	2,569
Other income[B]		
Interest from AAA rated Money Market funds	34	223
Interest on Treasury Bills	150	260
Deposit interest	344	58
Underwriting commission	2	4
	530	545
Total income	**3,039**	**3,114**

[A]All investments have been designated fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

[B]Other income on financial assets not designated fair value through profit or loss.

3. Investment management fee	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Investment management fee	67	200	267	98	295	393
Performance fee	–	315	315	–	200	200
	67	515	582	98	495	593
VAT paid	–	–	–	13	71	84
	67	**515**	**582**	**111**	**566**	**677**

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.

4. Administrative expenses	2008 £'000	2007 £'000
Directors' fees	68	62
Auditors' remuneration :		
– fees payable to the Company's auditor :		
– for the audit of the annual accounts	14	12
– fees payable to the Company's auditor and its associates for other services:		
– interim review	4	3
Secretarial fees	68	65
Investment Trust Initiative	37	33
Registrar's fees	37	42
Advisory fees	25	24
Legal fees	4	–
Loan commitment fee	8	21
Irrecoverable VAT	40	38
Other expenses	75	76
	380	**376**

The secretarial fee of £68,000 (2007 – £65,000) was paid to the Manager.

The Investment Trust Initiative expense of £37,000 (2007 – £33,000) was paid to the Manager in respect of marketing and promotion of the Company.

Services related to Corporate Finance Transactions

During 2007 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.

5. Finance costs	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Finance liabilities not at fair value through profit or loss:						
8.375% Debenture Stock interest	–	–	–	22	67	89
Debenture Stock premium and issue expenses written off	–	–	–	36	108	144
Bank loan interest	149	446	595	136	406	542
Bank overdraft interest	–	–	–	1	–	1
Premium paid on Debenture Stock repurchase	–	–	–	–	6,464	6,464
	149	**446**	**595**	**195**	**7,045**	**7,240**

6. Taxation

There is no liability to corporation tax for the year (2007 – nil).

	2008 £'000	2007 £'000
Return on ordinary activities before taxation	(35,498)	2,379
Tax thereon at 28.83% (2007 – 30%)	(10,234)	714
Effects of:		
Non taxable UK dividends	(699)	(762)
Losses/(gains) on investments not taxable	10,828	(2,267)
Excess expenses not utilised	105	2,315
	–	–

At the year end, the Company had surplus management expenses and loan relationship losses of £24,402,000 (2007 – £24,040,000). 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.

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.

7. **Dividends**	2008 £'000	2007 £'000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend paid for 2006 – 1.07p	–	871
Final dividend for 2007 – 2.50p (2006 – 1.55p)	1,208	875
Interim dividend for 2008 – 1.85p (2007 – 1.75p)	890	885
Dividends paid in the period	**2,098**	**2,631**

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 £2,517,000 (2007 – £2,432,000).

	2008 £'000	2007 £'000
Interim dividend paid for 2008 – 1.85p (2007 – 1.75p)	890	885
Proposed final dividend for 2008 – 2.65p (2007 – 2.50p)	1,268	1,218
	2,158	**2,103**

Since the year end the Company has bought back 70,000 shares, therefore the proposed final dividend for 2008 is based on the share capital, at the date of this report of 47,852,573 ordinary 5p shares.

8. Return per ordinary share	2008 p	2007 p
Revenue return	5.22	4.47
Capital return	(78.81)	(0.10)
Total return	**(73.59)**	**4.37**
Weighted average number of ordinary shares in issue	**48,236,983**	**54,391,540**

9. Investments	Listed in UK 2008 £'000	Listed in UK 2007 £'000
Fair value through profit or loss:		
Opening fair value	82,931	114,893
Opening appreciation	(29,872)	(45,555)
Opening book cost	53,059	69,338
Purchases at cost	7,710	7,969
Sales – proceeds	(11,997)	(47,489)
– realised gains on sales	3,102	23,241
Closing book cost	51,874	53,059
Closing (depreciation)/appreciation	(10,791)	29,872
Closing fair value	**41,083**	**82,931**

(Losses)/gains on investments	2008 £'000	2007 £'000
Realised gains on sales	3,102	23,241
Decrease in appreciation	(40,663)	(15,683)
Increase in value of Certificate of Deposit	1	–
	(37,560)	**7,558**

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:

	2008 £'000	2007 £'000
Purchases	46	63
Sales	8	48
	54	**111**

10. Debtors: amounts falling due within one year	2008 £'000	2007 £'000
Amounts due from stockbrokers	15	15
Net dividends and interest receivable	300	273
VAT recoverable	580	–
Other debtors and prepayments	17	19
	912	**307**

11. Creditors: amounts falling due within one year

(a) Bank loan

In November 2006 the Company entered into a three year revolving credit agreement facility with ING Bank N.V. At the year end £8,000,000 (2007 – £10,000,000) remained drawn down at a rate of 5.30875% (2007 – 6.42375%). On 12 December 2008 the loan was rolled over at a rate of 2.5875%. No balance of the facility remains undrawn. The terms of the loan facility contain covenants that the minimum net assets of the Company are £35 million and percentage of borrowings against net assets be less than 30%. The Company met both of these covenants throughout the period.

(b) Other creditors	2008 £'000	2007 £'000
Amounts due to stockbrokers	–	376
Investment management fee	114	116
Interest payable	1	10
Sundry creditors	95	71
	210	**573**

12. Called-up share capital	2008 £'000	2007 £'000
Authorised:		
104,000,000 ordinary shares of 5p each (2007 – 104,000,000 ordinary shares of 5p each)	**5,200**	**5,200**
Allotted, called-up and fully paid:		
47,922,573 ordinary shares of 5p each (2007 – 49,327,321 ordinary shares of 25p each)	**2,396**	**2,466**

During the year 1,407,500 (2007 – 7,642,556) ordinary shares of 5p each were bought back for cancellation at a total cost of £1,602,808 (2007 – £11,874,848) including expenses.

On 28 February 2008, 2,752 Subscription shares were exercised at 170p per share, leaving 8,529,027 Subscription shares in issue.

Since the year end the Company has repurchased 70,000 shares (cost £76,985), all of which have been cancelled.

13. Capital reserve	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Total capital reserve £'000
Year ended 31 October 2008			
At 31 October 2007	43,435	29,872	73,307
Realised gains on sales	3,102	–	3,102
Movement in fair value losses	–	(40,663)	(40,663)
Movement in fair value of Certificate of Deposit	1	–	1
Investment management fee	(515)	–	(515)
Finance costs	(446)	–	(446)
Purchase of own shares	(1,603)	–	(1,603)
VAT on investment management fees recoverable	506	–	506
At 31 October 2008	**44,480**	**(10,791)**	**33,689**

Capital reserve	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Total capital reserve £'000
Year ended 31 October 2007			
At 31 October 2006	76,606	45,555	122,161
Realised gains on sales	23,241	–	23,241
Movement in fair value losses	–	(15,683)	(15,683)
Investment management fee	(566)	–	(566)
Finance costs	(7,045)	–	(7,045)
Corporate restructuring costs	(595)	–	(595)
Purchase of own shares	(48,206)	–	(48,206)
At 31 October 2007	**43,435**	**29,872**	**73,307**

With effect from 1 November 2007, changes in fair values of investments which are readily convertible to cash, without accepting adverse terms, at the Balance Sheet date are included in realised, rather than unrealised, capital reserves in accordance with ICAEW Technical Release 01/08. Given current market conditions and the relative illiquidity of the UK small cap market, all changes in fair value are included in unrealised reserves.

14. **Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities**	2008 £'000	2007 £'000
Net return on ordinary activities before finance costs and taxation	(34,903)	9,619
Adjustment for:		
Losses/(gains) on investments	37,560	(7,558)
(Increase)/decrease in accrued income	(27)	19
(Increase)/decrease in other debtors	(578)	3
Increase/(decrease) in other creditors	23	(270)
Net cash inflow from operating activities	**2,075**	**1,813**

15. **Analysis of changes in cash during the year**	2008 £'000	2007 £'000
Opening balance	386	367
Net cash inflow	6,036	19
Closing balance	**6,422**	**386**

16. **Analysis of changes in net funds**	At 1 November 2007 £'000	Cash flow £'000	At 31 October 2008 £'000
Cash and short term deposits	386	6,036	6,422
UK Treasury Bills	4,963	(2,000)	2,963
AAA Money Market funds	4,350	(4,350)	–
Bank loan	(10,000)	2,000	(8,000)
Net funds/(debt)	**(301)**	**1,686**	**1,385**

17. Net asset value per share

	2008	2007
Equity shareholders' funds	£43,170,000	£82,364,000
Number of Ordinary shares in issue at year end	47,922,573	49,327,321
Equity shareholders' funds per share	90.08p	166.97p

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

	2008 £'000	2007 £'000
Opening adjusted net assets	82,364	131,253
Capital return for the year	(38,015)	(53)
Revenue on ordinary activities after taxation	2,517	2,432
Dividends appropriated in the year	(2,098)	(2,631)
Movement in unamortised Debenture Stock premium and issue expenses	–	144
Issue of subscription shares	5	20
Corporate restructuring costs	–	(595)
Share buybacks	(1,603)	(48,206)
Closing net assets	**43,170**	**82,364**

18. Financial instruments

The Company's objective is 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.

The impact of security price volatility is reduced by diversification. Diversification is achieved by investment in the stocks and shares of companies in a range of industrial, commercial and financial sectors. The management of the portfolio is conducted according to investment guidelines, established by the Board after discussion with the Managers, which specify the limits within which the Managers are authorised to act.

The Company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company also has the ability to enter into derivative transactions for the purpose of managing currency and market risks arising from the Company's activities.

The Manager has a dedicated investment management process, which ensures that the investment policy explained on page 2 is followed. Stock selection procedures are in place based on the active portfolio management and identification of stocks. The portfolio is reviewed on a periodic basis by a Senior Investment Manager and also by the Manager's Investment Committee.

The Company's Manager has an independent Investment Risk department for reviewing the investment risk parameters of the Company's portfolio on a regular basis. The department reports to the Manager's Performance Review Committee which is chaired by the Manager's Chief Investment Officer. The department's responsibility is to review and monitor ex-ante (predicted) portfolio risk and style characteristics using best practice, industry standard multi-factor models.

Additionally, the Manager's Compliance department continually monitors the trust's investment and borrowing powers and reports to the Manager's Risk Management Committee.

The main risks the Company faces from its financial instruments are (i) market price risk (comprising interest rate risk, currency risk and other price risk), (ii) liquidity risk and (iii) credit risk.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term debtors and creditors, other than for currency disclosures.

(i) Market price risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate movements may affect:
- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- interest payable on the Company's variable rate borrowings.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

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 Company's borrowings comprise a three year £8 million revolving credit agreement facility. Details of borrowings at 31 October 2008 are shown in note 11.

Interest risk profile

The interest rate risk profile of the portfolio of financial assets and liabilities at the Balance Sheet date was as follows:

At 31 October 2008	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
UK Treasury Bills	0.28	4.52	–	2,963
Cash deposits	0.25	5.34	3,421	3,001
Total assets	–	–	**3,421**	**5,964**
Liabilities				
Bank loans	0.02	5.31	–	8,000
Total liabilities	–	–	–	**8,000**

At 31 October 2007	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
AAA Money market funds	–	6.03	4,350	–
UK Treasury Bills	0.15	5.08	–	4,963
Cash deposits	–	5.28	386	–
Total assets	–	–	**4,736**	**4,963**
Liabilities				
Bank loans	0.04	6.42	–	10,000
Total liabilities	–	–	–	**10,000**

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loans is based on the interest rate payable, weighted by the total value of the loans. The maturity dates of the Company's loans are shown in note 11 to the financial statements.

The floating rate assets consist of AAA Money Market Funds and cash deposits on call earning interest at prevailing market rates.

The Company's equity portfolio and short-term debtors and creditors (excluding bank loans) have been excluded from the above tables.

All financial liabilities are measured at amortised cost.

Maturity profile

The maturity profile of the Company's financial assets and liabilities at the Balance Sheet date was as follows:

At 31 October 2008	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000
Fixed rate						
UK Treasury Bills	2,963	–	–	–	–	–
Short term bank loan	(8,000)	–	–	–	–	–
Cash	3,001	–	–	–	–	–
	(2,036)	–	–	–	–	–
Floating rate						
Cash	3,421	–	–	–	–	–
Total	**1,385**	–	–	–	–	–

At 31 October 2007	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000
Fixed rate						
UK Treasury Bills	4,963	–	–	–	–	–
Short term bank loan	(10,000)	–	–	–	–	–
	(5,037)	–	–	–	–	–
Floating rate						
Cash	4,736	–	–	–	–	–
Total	(301)	–	–	–	–	–

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the Balance Sheet date and with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's:

– profit for the year ended 31 October 2008 would increase/decrease by £34,000 (2007 – increase/decrease by £47,000). This is mainly attributable to the Company's exposure to interest rate on its floating rate cash balances.

– the Company holds no financial instruments that will have an equity reserve impact.

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the interest rate risk management process used to meet the Company's objectives.

Other price risk

Other price risks (i.e. changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets and the stock selection process, as detailed on page 15, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are listed on the London Stock Exchange.

Other price risk sensitivity

If market prices at the balance sheet date had been 10% higher or lower while all other variables remained constant, the return attributable to ordinary shareholders for the year ended 31 October 2008 would have increased/decreased by £4,108,000 (2007 – £8,293,000). This is based on the Company's equity portfolio at each year end.

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the other price risk management process used to meet the Company's objectives.

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is not considered to be significant as the Company's assets comprise mainly cash, short term deposits, placements and listed securities, which can be sold or realised to meet funding commitments if necessary.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions, and reviews these on a regular basis. Borrowings comprise a revolving credit agreement facility. The Board has imposed a maximum gearing limit of £8 million, which is reviewed on an ongoing basis. Details of borrowings at 31 October 2008 are shown in note 11.

Short-term flexibility is achieved through the use of loan and overdraft facilities, details of which can be found in note 11. Under the terms of the loan facility, the Manager provides the lender with loan covenant reports on a monthly basis, to provide the lender with assurance that the terms of the facility are not being breached. The Manager will also review the credit rating of a lender on a regular basis. Details of the Board policy on gearing is shown in the interest rate risk section of this note.

(iii) Credit risk

This is failure of the counter party to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

The risk is managed as follows:

– where the investment manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;

– investment transactions are carried out with a large number of brokers, whose credit rating of which is taken into account so as to minimise the risk to the Company of default;

– investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker;

– the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a monthly basis. In addition, the Custodian carries out a stock reconciliation to third party administrators' records on a monthly basis to ensure discrepancies are picked up on a timely basis. The Manager's Compliance department carries out periodic reviews of the Custodian's operations and reports its finding to the Manager's Risk Management Committee. This review will also include checks on the maintenance and security of investments held;

– cash is held only with reputable banks with high quality external credit enhancements.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 October 2008 was as follows:

	2008		2007	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Securities at fair value through profit or loss	41,083	41,083	82,931	82,931
Current assets				
Trades and other receivables	612	612	34	34
Accrued income	300	300	273	273
Cash and cash equivalents	9,385	9,385	9,699	9,699
	51,380	**51,380**	**92,937**	**92,937**

None of the Company's financial assets are past due or impaired.

Fair values of financial assets and financial liabilities

The book value of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. Investments held as dealing investments are valued at fair value. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

19. Contingent assets

On 5 November 2007, the European Court of Justice ruled that management fees on investment trusts should be exempt from VAT. HMRC has announced its intention not to appeal against this ruling to the UK VAT Tribunal and therefore protective claims which have been made in relation to the Company will be processed by HMRC in due course. The Company has not been charged VAT on its investment management fees from 1 November 2007.

The Manager has agreed to refund £580,000 to the Company for VAT charged on investment management fees for the period 1 January 2004 to 31 October 2007 and this has been included in these financial statements. This repayment has been allocated to revenue and capital in line with the accounting policy of the Company for the periods in which the VAT was charged. The reclaim for previous periods and the timescale for receipt are at present uncertain and the Company has taken no account in these financial statements of any such repayment.

20. Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The capital of the Company consists of equity, comprising issued capital, reserves and retained earnings.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the Manager's views on the market and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company is not subject to any externally imposed capital requirements.

21. Subsequent events

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 12.1% and the Company's NAV has fallen by 5.7% in the period from 31 October 2008 to 15 December 2008.

Marketing Strategy

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. 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 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

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 Aberdeen's Investment Plan for Children, Investment Trust Share Plan and Investment Trust ISA.

Aberdeen's Investment Plan for Children

Aberdeen Asset Managers ("AAM") runs 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 need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

Aberdeen Investment Trust Share Plan

AAM runs a Share Plan (the "Plan") through which shares in Dunedin Smaller Companies Investment Trust PLC can be purchased. There are no 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, 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 need invest in a Plan, and regular savers can stop or suspend participation by instructing AAM 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.

Stocks and Shares ISA

An investment of up to £7,200 in Dunedin Smaller Companies Investment Trust PLC can be made in the tax year 2008/2009.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT.

The annual ISA administration charge is £24 + VAT, calculated six monthly and deducted from income. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

You can choose to transfer previous tax year investments to us which can be invested in Dunedin Smaller Companies Investment Trust PLC while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per investment trust of £250.

Note

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

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

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

Trust Information

If investors would like details of Dunedin Smaller Companies Investment Trust PLC or information on the Children's Plan, Share Plan, ISA or ISA Transfers please telephone 0500 00 00 40, e-mail to inv.trusts@aberdeen-asset.com or write to:

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

Details are also available on www.invtrusts.co.uk

Keeping You Informed

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

For internet users, detailed data on Dunedin Smaller Companies Investment Trust PLC including price, performance information and a monthly fact sheet is available from the Trust's website (www.dunedinsmaller.co.uk) and the TrustNet website (www.trustnet.co.uk). Alternatively you can call 0500 00 00 40 for trust information.

For further information concerning any direct shareholding, please contact the Company's registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder helpline numbers:
Tel. 0871 384 2445
Fax 0871 384 2100
Shareview enquiry line: 0871 384 2020
Textel/hard of hearing line: 0871 384 2255

(Calls to the above Equiniti numbers will be charged at 8p per minute from a BT landline. Other telephony providers' costs may vary).

Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact:

Telephone: 0500 00 40 00
Email: aam@lit-request.com

For information on the Investment Plan for Children, Share Plan, ISA or ISA Transfer please contact:

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

For information on the Pension Plan, please contact
Edinburgh Pension Centre
Capita SIP Services
141 Castle Street
Salisbury
Wiltshire SP1 3TB
Telephone: 0800 13 70 79

The information on pages 45, 46 and 47 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

Actual Gearing
Total Assets (as below) less all cash and fixed interest assets (excluding convertibles) divided by shareholders' funds.

Asset Cover
The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.

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 Cover
Earnings per share divided by dividends per share expressed as a ratio.

Dividend Yield
The annual dividend expressed as a percentage of the share price.

Net Asset Value
The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.

Potential Gearing
Total Assets including all debt being used for investment purposes divided by shareholders' funds.

Premium
The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

Price/Earnings Ratio
The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.

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
Ratio of expenses as percentage of average shareholders' funds calculated as per the industry standard Lipper Fitzrovia method.

Total Return
Total Return involves reinvesting the net dividend in the month that the share price goes xd. 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

Notice is hereby given that the eighty-first Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at Discovery Point, Dundee, DD1 4XA on Thursday 5 February 2009 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 11 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 2008.
2. To approve the Directors' remuneration report for the year ended 31 October 2008.
3. To propose a final dividend of 2.65p on the ordinary shares.
4. To re-elect The Earl of Dalhousie 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 2009.

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 £789,567 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 2010, 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 £119,631; 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 2010, 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 2010 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 2010 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.

11. That the Articles of Association in the form produced to the Annual General Meeting and initialled by the Chairman of the Meeting for identification purposes be adopted as the Articles of Association of the Company, in substitution for and to the exclusion of, the existing Articles of Association.

Registered office:
40 Princes Street
Edinburgh
EH2 2BY

By order of the Board
Aberdeen Asset Management PLC
Secretary
30 December 2008

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.

(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 3 February 2009 or, in the event that the meeting is adjourned, on the register of members as at 6.00pm on the day two days 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 3 February 2009 or, in the event that the meeting is adjourned, in the register of members after 6.00pm on the day two days 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 ISA and Investment Trust Pension. These are explained in the 'Letter of Direction' which such holders will have received with this report.

Appendix to Notice of Annual General Meeting

EXPLANATORY NOTE OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

Directors' Conflicts of Interests

Under the 2006 Act, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests, or otherwise ensure that such conflict is approved by shareholders in general meeting. This requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts of other directors where the articles of association contain a provision to this effect.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only independent directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The independent directors will be able to impose limits or conditions when giving authorisation of which they think is appropriate.

The New Articles also contain provisions to ensure that a director must not impart confidential information in respect of the matter which gives rise to a conflict of interest or potential conflict of interest, if under a duty of confidentiality to another company. The New Articles also contain provisions stating that a director need not participate in board discussions or consider board papers in respect of the matter which gives rise to a conflict of interest or potential conflict of interest. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors in accordance with the 2006 Act. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operating effectively.

Shareholder Meetings

The New Articles reflect the fact that the 2006 Act does not contain any references to extraordinary general meetings of shareholders. Under the 2006 Act, any meeting other than an annual general meeting is simply classified as a general meeting. The provisions in the Existing Articles dealing with the convening of general meetings and length of notice required to convene general meetings have now been amended to conform to new provisions in the 2006 Act. In particular, a general meeting to consider a special resolution can be convened on 14 days clear notice whereas previously, 21 clear days notice was required.

Proxies

The 2006 Act now provides that shareholders can appoint multiple proxies. Proxies can also now speak at general meetings. The 2006 Act also provides that proxies shall have the same right to vote on a show of hands as shareholders. The New Articles therefore contain amendments to reflect these provisions.

Transfers of Shares

The 2006 Act provides that if the directors refuse to register a transfer of shares, then in addition to sending the purported transferee notice of refusal, the directors must also give reasons for the refusal and any further information about such reasons that the purported transferee may reasonably request. The Existing Articles have therefore been amended in this regard.

Director's Indemnities

The 2006 Act provides that a company which is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. The Existing Articles have therefore been amended to reflect this change.

Resolutions

The Existing Articles have been amended to reflect the fact that extraordinary resolutions have now been abolished, and resolutions are now proposed as either ordinary or special resolutions. In addition, the provisions in relation to the passing of written resolutions have been deleted on the basis that a public limited company is not permitted to pass written resolutions.

General

Certain other non-material amendments have been made to the Existing Articles to clarify the position in relation to share warrants and also to remove regulations which restate the existing legal position. These include the Company's obligations to lay accounts and the validity of the acts of auditors and their attendance at general meetings. All of these matters are now addressed within the provisions of the 2006 Act and as such, the position of the Company in relation to those issues remains unchanged under the terms of the New Articles.

Corporate Information

Directors

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

Manager and Registered Office

Aberdeen Asset Managers Limited
40 Princes Street
Edinburgh
EH2 2BY
Telephone: 0131 528 4000

Company Registration Number: SC 14692

Stockbrokers

Intelli Stockbrokers
63 Queen Victoria Street
London EC4N 4UA

Registrars

Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
Shareholder Helpline: 0871 384 2445
(Calls to the above Equiniti number will be charged at 8p per minute from a BT landline. Other telephony providers' costs may vary).

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

Your Company's History

The Company was incorporated on 19 July 1927

Issued share capital at 31 October 2008

47,922,573	Ordinary 5p shares
8,529,027	Subscription shares

Issued share capital at 15 December 2008

47,852,573	Ordinary 5p shares

Capital History

7 May 1997	£15,000,000 raised via a 25 year 8.375% Debenture issue
6 July 2000	100,000 ordinary shares purchased for cancellation
15 March 2002	150,000 ordinary shares purchased for cancellation
3 August 2004	276,281 ordinary shares purchased for cancellation
29 November 2006	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
30 November 2006	Sub-division of ordinary shares of 25p each into five ordinary shares of 5p each
30 November 2006	Bonus Issue of 8,543,496 subscription shares
1 December 2006	£15,000,000 8.375% Debenture Stock 2022 repaid at a price of £143.09 per £100 nominal of Debenture Stock
28 February 2007	11,717 subscription shares converted into 5p ordinary shares
Year ended 31 October 2007	7,642,556 ordinary shares purchased for cancellation
28 February 2008	2,752 subscription shares converted into 5p ordinary shares
Year ended 31 October 2008	1,407,500 ordinary shares purchased for cancellation
Since 31 October 2008	70,000 ordinary shares purchased for cancellation