

SCI 4692

04

Dunedin Smaller Companies Investment Trust plc

Annual Report and Accounts

31 October 2004



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Financial Calendar

20 December 2004	Announcement of results for year ended 31 October 2004
10 February 2005	Annual General Meeting
14 February 2005	Final Ordinary dividend payable for year ended 31 October 2004
May 2005	Announcement of interim results for six months ending 30 April 2005
June 2005	Interim Ordinary dividend payable for year ending 31 October 2005

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 holders wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust.

Investment Objective and Policy

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

The Board notes the publication of the Investment Entities (Listing Rules and Conduct of Business) Instrument 2003 and has stated that it is the investment policy of the Company to invest no more than 15 per cent. of its gross assets in other listed investment companies (including listed investment trusts).

Benchmark

FTSE SmallCap Index (Excluding Investment Companies)

Investment Manager

Edinburgh Fund Managers plc ("EFM")

Capital Structure

The Company has a capital structure comprising Ordinary shares of 25p. There is also £15 million of 8.375 % debenture stock in issue which is redeemable on 6 May 2022.

Gearing

The Board is responsible for determining the gearing policy of the Company. The current guidelines authorise the Investment Manager to increase the level of gearing to 10% without reference to the Board.

Total Assets and Net Asset Value

The Company had total assets of £98.5 million and a diluted net asset value of 494.26 pence per Ordinary share at 31 October 2004 (with debt at market value).

Market Capitalisation

The Company had a Market Capitalisation of £65.6 million at 31 October 2004.

Websites

www.dunedinsmaller.co.uk

www.aberdeen-asset.com

Company Secretary

Edinburgh Fund Managers plc, Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD

Email: company.secretary@invtrusts.co.uk

Customer Services

Email: response@edfd.com

Risk

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

The Company currently utilises gearing in the form of debentures. Gearing has the effect of exacerbating market falls and market gains.

Duration

The Company does not have a fixed life.

Share Dealing/ PEP/ ISA Status

Shares in Dunedin Smaller Companies Investment Trust plc can be bought in the open market through a stockbroker. Shares can also be purchased through the Edinburgh InvestIT Savings Plan and the Edinburgh Investment Trust ISA and PEP and are fully qualifying for inclusion within tax efficient ISA wrappers (see page 39).

Management and Secretarial Agreements

The Company has an agreement with EFM 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 £286,000 was earned in respect of the year to 31 October 2004). The agreement is normally terminable by either party on three months' notice.

The Company has an agreement with EFM 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 Investment Manager's appointment, including an evaluation of performance and fees, are reviewed by a Committee of the Board on an annual basis. The Committee believes that the continuing appointment of the Investment Manager, on the terms agreed, is in the interests of shareholders as a whole. Further details are provided in the Chairman's Statement.

AITC

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

Your Board

The Directors, all of whom are non-executive, and the majority of whom are independent of the Investment Manager, supervise the management of Dunedin Smaller Companies Investment Trust plc and represent the interests of Shareholders.

The Earl of Dalhousie, Chairman

Status: Independent Non-Executive Chairman

Age: 56

Length of service: 11 years, appointed on 1 November 1993

Experience: a founder of Enskilda Securities and formerly a director of Capel-Cure Myers Capital Management

Last re-elected to the Board: 13 February 2003

Committee membership: Audit Committee, Management Engagement Committee and Remuneration Committee

Remuneration: £13,450

All other public company directorships: None

Employment by the Manager: None

Other connections with Trust or manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 4,000 Ordinary shares

Meetings attended during the year:

<i>Board Meetings</i>	<i>4</i>
<i>Audit Committee Meetings</i>	<i>4</i>
<i>Management Engagement Committee</i>	<i>4</i>

T J K Barnes

Status: Independent Non-Executive Director

Age: 43

Length of service: 1 year, 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: 12 February 2004

Committee membership: Audit Committee, Management Engagement Committee and Remuneration Committee

Remuneration: £9,869

All other public company directorships: Dobbies Garden Centres PLC

Employment by the Manager: None

Other connections with Trust or manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 2,565 Ordinary shares

Meetings attended during the year:

<i>Board Meetings</i>	<i>4</i>
<i>Audit Committee Meetings</i>	<i>4</i>
<i>Management Engagement Committee</i>	<i>4</i>

R M Entwistle

Status: Independent Non-Executive Director and Senior Independent Director

Age: 60

Length of service: 6 years, appointed a director on 18 December 1998

Experience: is managing director of Adam & Company and is a fellow of the Chartered Institute of Bankers

Last re-elected to the Board: 7 February 2002

Committee membership: Audit Committee, Management Engagement Committee and Remuneration Committee

Remuneration: £10,750

All other public company directorships: Adam & Company Group PLC

Employment by the Manager: None

Other connections with Trust or manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 6,000 Ordinary shares

Meetings attended during the year:

Board Meetings 4

Audit Committee Meetings 4

Management Engagement Committee 4

N M Yarrow

Status: Non-Executive Director

Age: 44

Length of service: 6 years, appointed a Director on 21 May 1998

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

Last re-elected to the Board: 12 February 2004

Committee membership: Audit Committee, Management Engagement Committee and Remuneration Committee

Remuneration: £10,750

All other public company directorships: None

Employment by the Manager: Former employee

Other connections with Trust or manager: None

Shared Directorships with any other Trust Directors: None

Shareholding in Company: 4,000 Ordinary shares

Meetings attended during the year:

Board Meetings 4

Audit Committee Meetings 4

Management Engagement Committee 4

Other committee meetings 2

Information about the Manager

The Company's investment manager is Edinburgh Fund Managers plc ("EFM"), a wholly-owned subsidiary of Aberdeen Asset Management PLC ("Aberdeen"), whose Group companies as at 31 October 2004 managed a combined £22.1 billion of funds for UK institutions, investment trusts, closed end funds, unit trusts, private clients and offshore funds.

Aberdeen has been listed on the London Stock Exchange since 1991, although its origins go back to

an investment company founded in 1876 to assist Scottish farmers to set up in the Canadian prairies. It has its headquarters in Aberdeen with offices in Edinburgh, Fort Lauderdale, Glasgow, Hong Kong, Inverness, Jersey, London, Luxembourg, Singapore and Sydney.

The Group now manages over 40 investment trusts and other closed-end funds representing £4.9 billion under management.

Highlights

Financial Highlights	31 October 2004	31 October 2003	% change	
Total assets less current liabilities	98.5m	89.6m	10.1%	
Equity shareholders' funds	83.6m	74.8m	11.8%	
Share price (mid market)	403.00p	341.50p	18.0%	
Net Asset Value per share	512.88p	450.63p	13.8%	
Net Asset Value per share adjusted for borrowings valued at market value	494.26p	438.12p	13.0%	
FTSE SmallCap Index ex Inv Co's (capital gains basis)	2,595.80	2,493.20	4.1%	
Discount (difference between share price and net asset value)				
where borrowings are deducted at par value	21.4%	24.2%		
where borrowings are deducted at market value	18.6%	22.1%		
Gearing (ratio of borrowings to shareholders' funds)				
Actual gearing ratio	2.00%	(0.23%)		
Maximum potential gearing ratio	18.00%	20.11%		
Dividends and earnings				
Earnings per share	14.58p	12.09p	20.6%	
Dividends per share (including proposed final dividend)	14.00p	12.90p	8.5%	
Dividend cover	1.05	0.93	12.9%	
Revenue reserves	£1,951,000	£1,837,000	6.2%	
Operating costs				
Total expense ratio	1.31%	0.98%		
Performance				
	1 year return	3 year return	5 year return	
Capital Return				
Net asset value per share	13.8%	7.1%	1.2%	
FTSE SmallCap Index ex Inv Co's	4.1%	13.0%	0%	
Share price	18.0%	3.1%	5.1%	
Total Return (Capital Return plus dividends reinvested)				
Net asset value per share	16.9%	17.1%	14.9%	
FTSE SmallCap Index ex Inv Co's	6.7%	22.4%	14.6%	
Share price	22.4%	15.8%	24.3%	
Dividend				
	Rate	xd date	Record date	Payment date
Proposed final dividend 2004	10.00p	19 January 2005	21 January 2005	14 February 2005
Interim dividend 2004	4.00p	16 June 2004	18 June 2004	30 June 2004
Total dividend 2004	14.00p			
Final dividend 2003	8.90p	14 January 2004	16 January 2004	13 February 2004
Interim dividend 2003	4.00p	11 June 2003	13 June 2003	27 June 2003
Total dividend 2003	12.90p			

Financial Record

last 10 years

	Assets at Valuation £000	Preference stock and other borrowings £000	Equity shareholders' funds £000	Revenue available for ordinary dividends £000	Net asset value per share p	Earnings per share p	Dividends per share p	Share price p
1993	51,388	425	50,963	1,465	303.4	8.72	9.0	290.0
1994	57,933	5,000	52,933	1,506	315.1	8.96	9.0	306.0
1995	63,851	5,000	58,851	1,553	350.3	9.24	9.0	326.0
1996	72,614	5,000	67,714	1,602	402.5	9.54	9.0	346.0
1997	85,379	15,000	70,379	1,979	417.6	11.78	10.0	346.5
1998	75,136	15,000	60,136	2,463	356.6	14.67	11.9	292.0
1999	100,509	15,000	85,509	2,576	507.7	15.33	12.4	383.5
2000	127,708	15,000	112,708	2,510	673.7	14.97	12.9	520.0
2001	95,321	15,000	80,231	2,243	479.3	13.43	12.9	391.0
2002	72,224	15,000	57,224	1,647	344.7	9.92	12.9	264.0
2003	89,752	15,000	74,752	2,002	450.6	12.09	12.9	341.5
2004	98,627	15,000	83,627	2,403	512.9	14.58	14.0	403.0



Chairman's Statement

The Trust aims to attract long term retail investors and institutional investors wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse portfolio. Our portfolio is structured to provide both capital appreciation and dividend yield to shareholders with an emphasis on quality companies with good management, strong cash-flow, a sound balance sheet and the prospect of dividend growth.

I am pleased to report another year of recovery in the net asset value and share price of the Company following the bear market at the start of the decade. The Company's net asset value per share rose by 13.8% in the year to 31 October 2004 to 512.88p while the share price was 18.0% higher at 403.0p. The Company's benchmark index, the FTSE Small Cap Index (excluding investment companies) rose by 4.1%. The gain in the net asset value return per share in relation to the index was attributable mainly to stock selection rather than either sector strategies or gearing.

The revenue return per share for the year was 14.58p (2003 – 12.09p) and the Board is recommending a final dividend of 10.0p which will be paid on 14 February 2005 to shareholders on the register on 21 January 2005. When combined with the interim dividend of 4.0p, the total dividend for the year will amount to 14.0p, an increase of 8.5%. Our preliminary forecasts indicate that the improving trend in the revenue return will continue in the year ahead.

Gearing

The Company utilized a proportion of its gearing in the first half of the year reflecting growing confidence of economic recovery although this was reduced through the summer months as equity markets struggled to advance. The decision to invest the Company's borrowings is driven by the manager identifying attractive investment opportunities within guidelines agreed by the Board. At 31 October 2004, the actual gearing ratio was 2.0% (31 October 2003: -0.2%).

Investment Manager

It is encouraging that both the investment performance and the discount at which the Company's shares trade relative to the net asset value have improved over the past year. The portfolio is now structured to deliver capital appreciation and increased dividend income and the directors believe that the continuing appointment of the investment manager, on the terms agreed, is in the interests of shareholders.

Annual General Meeting

The Board and I encourage shareholders to attend the Annual General Meeting which this year will be held at Tayforth House, 9 Luna Place, Technology Park, Dundee on 10 February 2005 at 12.00 noon. In addition to the formal business of the meeting, our portfolio manager, Andrew Paisley, 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 and manager over lunch at the conclusion of the AGM.

Outlook

The pace of economic growth in the UK is beginning to slow down due to the combination of the increase in interest rates and higher oil prices. Inflation in the UK however remains under control and economists are beginning to suggest that interest rates in the UK are close to peak levels for this economic cycle. Whilst growth may be slower in the year ahead, the economic background should enable the corporate sector, including smaller companies, to deliver further growth in profits and dividends.

The Earl of Dalhousie

Chairman

30 December 2004

Manager's Review

The smaller company sector continued to deliver positive returns for the year to 31 October 2004. Against that background the Trust performed strongly in both relative and absolute terms. The net asset value per share increased by 13.8% in the twelve months to 31 October 2004, compared to a rise in the benchmark of 4.1%. The outperformance was greater on a total return basis, given the focus on higher yielding investments, with the Trust delivering a total return of 16.9% compared to a total return from the benchmark of 6.7%.

The majority of the outperformance came from positive stock-selection with strong outperformance from holdings in the construction, electronics, engineering and retailing sectors.

Market Background

The market rally which commenced during March 2003 continued into early 2004 as economic data confirmed strong recovery in both the US and UK economies. The rally was halted following the Madrid terrorist bombing in March which resulted in investor appetite for risk moderating. Additionally investors started to worry about the impact of progressively higher interest rates in the UK and prospect of higher interest rates in the US.

The market drifted downwards over the summer as economic news from the US became more mixed and investors became uncertain as to the outcome of the US election. Some poor news from the semiconductor sector also saw the valuations of technology companies being realigned with less optimistic growth assumptions.

Despite a period of increasing interest rates, consumer spending remained buoyant for most of the year. That said, the housing market started to cool over the summer months and there are now clear signs that consumer spending in general is moderating.

The oil price was very volatile during the period with a rapid and dramatic increase in price seen over the summer and into autumn. This was caused by a number of factors including strong demand from China, supply concerns and low inventory levels.

Strong Chinese economic demand was also evidenced elsewhere as many input costs, such as steel, rose.

Portfolio

The portfolio is structured to deliver capital and income growth. We continued to look for good quality companies with strong cashflow and particularly where an above average dividend yield is available.

The Trust employed a modest level of gearing throughout the period. The board has given the manager the authority to use gearing up to 10% of net assets.

We have a general policy of not investing in loss-making companies. We believe these higher risk and often speculative investments are unsuitable given the risk averse profile of the Trust. This strategy assisted performance over the last year.

The Trust benefited from a good level of takeover activity during a period which saw a general increase in corporate merger and acquisition activity. Several holdings in the technology sector were bid for including Diagonal, London Bridge and Synstar. Elsewhere armoured vehicle manufacturer, Alvis was acquired by BAE, Peterhouse was purchased by Babcock and Mentmore was bought by Safestore.

The Trust benefited from strong share price performances from a number of holdings in different sectors. Within consumer goods, Pendragon, a car retailer, continued to perform well and made an important strategic acquisition. Topps Tiles is the market-leader in UK tile retailing and benefited from increased use of tiles within UK homes. Within industrials, Roxboro performed strongly as it announced the disposal of part of the business. Wellington, which is a manufacturer of seals, performed positively as demand increased from the oil and gas sectors in particular. Within Resources, the holding in Paladin performed well as the oil price increased.

Outlook

The cycle of increasing UK interest rates is having the desired effect of cooling the housing market and consumer spending. As a result it seems unlikely that interest rates will rise materially. The UK corporate sector seems reasonably well placed to take over from the consumer sector as the engine of economic growth with global demand remaining positive. Companies do however face the adverse impact of higher input costs, increased energy prices and a weaker dollar. Poorer quality companies are likely to see margins and profits squeezed.

Government spending is likely to remain high in most areas and the portfolio contains several holdings which will benefit from this including Morgan Sindall and RM Group.

Merger and acquisition activity is likely to continue within smaller companies as larger companies acquire turnover as a way to grow in a low inflation environment and venture capitalists enter the market.

We will remain focused on identifying attractive investment opportunities and firmly believe that our approach to stock selection, targeting good quality companies on sensible valuations, particularly where an attractive yield is available will deliver outperformance against the benchmark and growth in both capital and income.

Andrew Paisley
Edinburgh Fund Managers plc
30 December 2004

Investment Portfolio

As at 31 October 2004

Company	Market Value £000	Sector classification
Paladin Resources	2,654	Oil and gas
Paladin is an oil exploration and production company. The company specialises in buying mature oil producing assets and with the aid of new technology improving the performance of the asset.		
Headlam	2,110	Household goods and textiles
Headlam is a distributor of floorcoverings. The company is the UK market-leader supplying the independent retail sector. The company has a successful strategy of making bolt-on acquisitions.		
SIG	1,921	Construction and building materials
SIG is a distributor of insulation and other building products. The Group has operations in Europe, North America and the UK. The company is benefiting from more stringent insulation requirements.		
Wellington Holdings	1,886	Engineering and machinery
Wellington Holdings manufactures seals for a variety of applications including oil and gas and hydraulics. The company has been successful in restructuring over the last two years which has improved profitability.		
Restaurant Group	1,882	Leisure and hotels
Restaurant Group is an operator of restaurants on high street locations, leisure parks and at airports. The business is benefiting from a resurgence in cinema attendance and recovery in air passenger numbers.		
White Young Green	1,872	Support services
White Young Green is an engineering consultancy and provides services to both the public and private sectors. The Group has grown successfully through a number of acquisitions.		
Intermediate Capital Group	1,845	Speciality and other finance
Intermediate Capital provides mezzanine finance to companies. This type of finance remains a specialist area providing attractive returns. The company has provided loans to companies in a wide range of industries, always with a focus on cashflow.		
Roxboro	1,651	Electronic and electrical equipment
Roxboro manufactures electronic products in two areas, light emitting diodes which are more energy efficient and durable than traditional lighting and measurement devices for the process, energy and industrial markets.		
Savills	1,509	Real estate
Savills is a residential and commercial property agent. As well as transactional services, the business is increasingly expanding into more predictable revenue streams.		
Morgan Sindall	1,500	Construction and building materials
Morgan Sindall is a building contractor. As well as infrastructure projects the business has developed an expertise in the fit-out and the social-housing markets.		
Ten largest investments	18,830	19.12% of total assets less liabilities

Investment Portfolio – continued

Company	Market Value £000	Sector classification
TDG	1,424	Transport
TDG is a logistics company, providing services mainly to the chemical, manufacturing and retail sectors. The business has operations in both the UK and Europe.		
Laird Group	1,408	Electronic and electrical equipment
Laird is a conglomerate with two divisions: technologies and security systems. Technologies is the market leader in the design and supply of electromagnetic shielding which is used in areas such as mobile phones. Security systems manufactures locks for doors and windows.		
Dechra Pharmaceuticals	1,356	Pharmaceuticals and biotechnology
Dechra is the UK market-leader in the distribution of veterinary products to vets. Additionally the group has a portfolio of pet products including pharmaceuticals.		
Ultra Electronic	1,281	Aerospace and defence
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		
BSS	1,264	Construction and building materials
BSS is a distributor of building products. The company has undergone a very successful turnaround and is now growing both organically and by acquisition		
Helical Bar	1,255	Real estate
Helical bar is a property development and investment company. The development portfolio is largely funded using third party money. The investment portfolio is actively managed rotating between sectors to maximise asset growth.		
Fenner	1,241	Engineering and machinery
Fenner is a manufacturer of belts. Heavy duty belts are used in industries such as coal mining. The company also manufactures precision belting which is used in applications such as printers.		
London Merchant Securities	1,219	Real estate
London Merchant Securities is a property developer and venture capital company. The property business owns a range of offices, retail and leisure properties. The venture capital business has a spread of investments in companies at various stages of development.		
Abacus	1,193	Electronic and electrical equipment
Abacus is a UK based distributor of electronic components. The Group also provides a range of allied services including technical support and manufacture of displays.		
BPP	1,169	Support services
BPP provides a range of training courses. As well as accountancy, financial services and legal training, the group owns several sixth form colleges.		
Twenty largest investments	31,640	32.13% of total assets less liabilities

Company	Market Value £000	Sector classification
Havelock Europa	1,149	Construction and building materials
Victrex	1,140	Chemicals
Chloride	1,131	Electronic and electrical equipment
Systems Union	1,128	Software and computer services
Bellway	1,125	Construction and building materials
Holidaybreak	1,089	Leisure and hotels
Dairy Crest	1,089	Food producers and processors
British Polythene	1,087	Support services
John Menzies	1,075	Support services
Thirty largest investments	42,793	43.46% of total assets less liabilities
Weir Group	1,073	Engineering and machinery
Rensburg	1,071	Speciality and other finance
Forth Ports	1,056	Transport
Topps Tiles	1,024	General retailers
Belhaven Group	1,015	Beverage and tobacco
Aveva Group	997	Software and computer services
Mowlem	980	Construction and building materials
Oxford Instruments	965	Electronic and electrical equipment
ITnet	962	Software and computer services
Ulster Television	949	Media and entertainment
Alexon Group	946	General retailers
Euro Motor Holdings	934	Automobiles and parts
Chemring Group	898	Aerospace and defence
LA Fitness	884	Leisure and hotels
Wellington Underwriting	832	Insurance
Salvesen (Christian)	823	Transport
Clarke (T)	815	Construction and building materials
Anite Group	814	Software and computer services
Candover Investments	806	Investment Companies
Robert Walters	791	Support Services
RM	779	Software and computer services
Johnson Service Group	777	Support Services
Care UK	777	Health
Mouchel Plc	775	Support Services
French Connection Group	774	General retailers
Detica Group	756	Support Services
Low & Bonar	741	Construction and building materials
Unite Group	741	Real estate
Zotefoams	711	Chemicals

Investment Portfolio – continued

Company	Market Value £000	Sector classification
Robert Wiseman Dairies	699	Food producers and processors
TT Electronics	676	Electronic and electrical equipment
Peacock Group	667	General retailers
Wilmington Group	660	Media and entertainment
Interserve Ord	651	Support Services
Incisive Media	647	Media and entertainment
London Scottish Bank	626	Speciality and other finance
Novar	619	Construction and building materials
London Clubs International	616	Leisure and hotels
Rutland Trust	573	Speciality and other finance
Marshalls Group	566	Construction and building materials
AEA Technology Plc	552	Support Services
Umeco	544	Aerospace and defence
Gooch & Housego	517	Information Technology Hardware
Greggs	516	Food and drug retailers
Incepta Group	513	Media and entertainment
Quantica Plc	501	Support Services
SHL Group	470	Support Services
Quintain Estates & Developments	459	Real estate
Cox Insurance Holdings	436	Insurance
Spectris Group	417	Electronic and electrical equipment
Derwent Valley Holdings	407	Real estate
Pendragon	389	Automobiles and parts
Whitehead Mann Group	366	Support Services
Renold	346	Engineering and machinery
RPS Group	338	Support Services
Microgen Holdings	326	Software and computer services
Television Corporation	325	Media and entertainment
Thus Group	278	Telecommunication Services
Epic Group	248	Media and entertainment
XP Power	246	Electronic and electrical equipment
Codascisys	234	Software and computer services
Sportech	234	Leisure and hotels
Imagination Technologies	210	Information Technology Hardware
Georgica	206	Leisure and hotels
Planit Holdings	186	Software and computer services
Ultraframe	159	Construction and building materials
AIT Group	115	Software and computer services
Babcock International Group	110	Engineering and machinery

Company	Market Value £000	Sector classification
BTG	101	Support Services
Development Securities	77	Real estate
SPG Media Group	52	Media and entertainment
Total other investments	42,345	43.01% of total assets less current liabilities
Total value of investments	85,138	86.47% of total assets less current liabilities
Net current assets	13,326	13.53% of total assets less current liabilities
Total assets less current liabilities	98,464	100.00% of total assets less current liabilities

Sector Analysis

As at 31 October 2004

		FTSE Small Cap Index (ex ICs) Weighting	Portfolio weightings	
			2004	2003
Resources	Mining	1.24%	-	-
	Oil & Gas	4.44%	2.70%	2.84%
		5.68%	2.70%	2.84%
Basic industries	Chemicals	2.01%	1.88%	2.79%
	Construction & Building Materials	5.83%	11.01%	9.63%
		7.84%	12.89%	12.42%
General industrials	Aerospace & Defence	0.74%	2.88%	2.83%
	Electronic & Electrical Equipment	4.05%	7.81%	5.74%
	Engineering & Machinery	3.39%	4.62%	3.47%
		8.18%	15.31%	12.04%
Cyclical consumer goods	Automobiles & Parts	1.54%	1.34%	2.34%
	Household Goods & Textiles	1.83%	2.14%	1.94%
		3.37%	3.48%	4.28%
Non cyclical consumer goods	Beverages	0.31%	-	-
	Food Producers & Processors	2.52%	1.82%	2.52%
	Health	4.21%	0.79%	1.97%
	Personal Care & Household Products	0.79%	-	-
	Pharmaceuticals and Biotechnology	3.23%	1.38%	0.78%
		11.06%	3.99%	5.27%
Cyclical services	General Retailers	7.71%	4.62%	5.81%
	Leisure and Hotels	4.50%	6.02%	4.03%
	Media & Entertainment	4.62%	3.20%	3.55%
	Support Services	13.65%	10.93%	9.97%
	Transport	4.80%	3.35%	2.42%
		35.28%	28.12%	25.78%
Non cyclical services	Food & Drug Retailers	0.29%	0.52%	0.50%
	Telecommunications Services	1.48%	0.28%	0.74%
		1.77%	0.80%	1.24%
Utilities	Other utilities	0.63%	-	-
		0.63%	-	-
Financials	Insurance	3.50%	1.29%	1.95%
	Life Assurance	0.26%	-	-
	Investment Companies	-	0.82%	0.76%
	Real Estate	6.20%	5.76%	5.96%
	Speciality & Other Finance	4.87%	4.18%	4.70%
		14.83%	12.05%	13.37%
Information technology	Information Technology Hardware	3.10%	0.74%	0.23%
	Software & Computer Services	8.26%	6.39%	5.58%
		11.36%	7.13%	5.81%
Total equities		100.00%	86.47%	83.05%
Net current assets		-	13.53%	16.95%
Total assets less current liabilities		100.00%	100.00%	100.00%

Investment Changes

	Valuation at 31 October 2003 £000	Net purchases/ (sales) £000	Appreciation/ (depreciation) £000	Valuation at 31 October 2004 £000
United Kingdom	74,377	(418)	11,179	85,138
Overseas	32	(226)	194	-
Total Investments	74,409	(644)	11,373	85,138

Comparison of Market Capitalisation

As at 31 October 2004

Equity market capitalisation £m	Dunedin Smaller Companies Weighting	FTSE SmallCap Index (ex investment companies) Weighting
0-100	25.3%	25.0%
100-200	24.5%	46.9%
200-300	25.5%	26.2%
300-400	11.1%	1.9%
100-500	4.5%	-
500+	9.1%	-
Total	100.0%	100.0%

Analysis of Shareholders

As at 31 October 2004

Your Company's Recent Capital History

The Company was incorporated on 19 July 1927

Issued share capital at 31 October 2004

16,273,719	Ordinary 25p shares
------------	---------------------

Capital History

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

Directors' Report

Review of the Business

A review of the Company's activities is given in the Corporate Summary on page 1 and the Chairman's Statement and Manager's Review on pages 8 to 10.

Results and Dividends

The Directors recommend that a final dividend of 10.0p (2003 – 8.9p) is paid on 14 February 2005 to shareholders on the register on 21 January 2005. The ex-dividend date is 19 January 2005.

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 is an investment company as defined by Section 266 of the Companies Act 1985, and a member of the Association of Investment Trust Companies ("AITC").

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 2003. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 31 October 2004 so as to be able to continue to obtain approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for that year.

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

Directors

Details of the current Directors of the Company are shown on pages 3 and 4.

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

The Directors at 31 October 2004 and 1 November 2003 had no interest other than those interests, all of which are beneficial interests, shown below in the share capital of the Company. None of the Directors had any non-beneficial interests in the share capital of the Company at 31 October 2004 or 1 November 2003.

	31 October 2004	1 November 2003*
The Earl of Dalhousie	4,000	4,000
T J K Barnes	2,565	-
R M Entwistle	6,000	6,000
N M Yarrow	4,000	4,000

** or subsequent date of appointment*

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. Mr Yarrow is an executive director of Northern Venture Managers which was, between June 2000 and December 2003, a subsidiary of Edinburgh Fund Managers PLC, the Investment Manager and secretary to the Company. No Director had a service contract with the Company. Mr Barnes is chief executive of Dobbies Garden Centres PLC, of which the Company owns approximately 2.4% of the shares in issue.

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

In July 2003 the revised Combined Code on Corporate Governance ("the New Code") was published and is applicable for all accounting periods beginning on, or after, 1 November 2003, with the exception of the new provisions relating to the constitution of the Board which take effect from 1 April 2005. The Board confirms that the Company has complied throughout the accounting period with the relevant provisions contained within the New Code.

Directors

The Earl of Dalhousie and Messrs Barnes and Entwistle are considered by the Board to be independent of the Company and the Investment Manager and free of any material relationship with the Investment Manager. Mr Yarrow is an executive director of Northern Venture Managers which was, between June 2000 and December 2003, a subsidiary of Edinburgh Fund Managers PLC. 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 Investment 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 Investment 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 put 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.

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

Appointments to the Board of Directors are considered by the whole Board. Possible new Directors are identified against the requirements of the Company's business and the need to have a balanced Board. External search consultants may be used to ensure that a wide range of candidates can be considered. Every Director is entitled to receive appropriate training as deemed necessary. A Director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. In addition, all Directors are required to submit themselves for re-election at least every three years.

Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. The 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 Investment 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 Investment Manager. *The Investment 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 Investment 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 Investment Manager's policy is to vote all shares held by the Company.*

Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the financial statements appear on pages 25 and 28.

Internal Controls

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

- financial;
- operational; and
- compliance.

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

- the Investment Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Board and Investment 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 Investment Manager's compliance department continually reviews the Investment Manager's operations;
- written agreements are in place which specifically define the roles and responsibilities of the Investment 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 Investment Manager, has decided to place reliance on the Investment Manager's systems and internal audit procedures; and
- at its December 2004 meeting, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 October 2004 by considering documentation from the Investment Manager, including the internal audit and compliance functions and taking account of events since 31 October 2004. 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) 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 Investment Manager and Administrator;
- to meet, if required, with the external Auditors to review their proposed audit programme of work and the findings of the Auditors. The Committee shall also use this as an opportunity to assess the effectiveness of the Audit process;
- to develop and implement policy on the engagement of the external Auditor to supply non-audit services;
- to review the arrangements in place within Aberdeen whereby Aberdeen staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- to make recommendations to the Board in relation to the appointment of the external Auditor and to approve the remuneration and terms of engagement of the external Auditor; and
- to monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualification.

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 Investment Manager and its compliance with the terms of the management and secretarial agreement. The terms and conditions of the Investment 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 Investment Manager on the terms agreed is in the interests of shareholders as a whole.

The Board as a whole acts as a Nomination Committee with the Senior Independent Director acting as Chairman.

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.

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.

Directors' Report – continued

Substantial Interests

At 30 December 2004, 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
Edinburgh Investment Trust PEP/ISA Plans*	1,548,938	9.52
Schroder Investment Management Ltd	1,372,937	8.44
Royal London Asset Management Ltd	1,238,750	7.61
Progressive Asset Management Ltd	1,000,000	6.14
Edinburgh InvestIT*	891,246	5.48
Legal & General Investment Management Ltd*	662,711	4.07
Derbyshire County Council	650,000	3.99
AXA Sun Life Investment Management Ltd	594,778	3.65
Aegon Asset Management plc	586,781	3.61
DC Thomson & Company Ltd	580,000	3.56

* 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 Purchase of the Company's Own Ordinary shares

The Directors propose to seek renewed approval at the forthcoming Annual General Meeting of the Company to purchase its own shares in the market. The purchase of shares, which will only take place at a discount to net asset value, will enhance the net asset value of the remaining shares in issue. A resolution will be proposed as a Special Resolution providing authority in accordance with Section 166 of the Companies Act 1985 to repurchase up to 14.99% of the Company's issued Ordinary shares of 25p.

The Ordinary shares of 25p would only be purchased at prices below their prevailing net asset value (as determined by the Directors as at a date falling not more than seven days before the date of repurchase) and such purchases would be made in the interest of the Company's Shareholders. The maximum number of Ordinary shares of 25p that may be purchased is 2,439,430. The minimum price which may be paid for a share is 25p and the maximum price that may be paid is 105% of the average of the middle market quotations for a share calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the relevant share is purchased. On the basis of the price of the Company's Ordinary shares of 403p as at the balance sheet date, a total of approximately £9.83 million would be needed if all of this facility were to be used. Any such purchases will be completed by the delivery to the Company of the shares and following their delivery to the Company, such shares will be cancelled. The exercise of the authority will expire at the conclusion of the Annual General Meeting of the Company in 2006, unless the authority is renewed prior to such time. The Company is normally prohibited from purchasing its own shares during the close periods prescribed by the UKLA's Listing Rules. The Directors intend to seek waivers from the UK Listing Authority relating to those close periods which, if granted, will allow the Company to exercise the power to buy back shares at any time. Any use by the Company of the authority to purchase shares will be by way of either a single purchase or a series of purchases, when market conditions allow, with the aim of maximising the benefit to Shareholders.

30 December 2004



By order of the Board
Edinburgh Fund Managers plc
Secretary, Edinburgh

Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 28.

Remuneration Committee

The Company has four non-executive Directors as listed on pages 3 and 4. The Board as a whole fulfils the function of a Remuneration Committee.

Unaudited Information

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £60,000 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 October 2005 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 in line with RPI.

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.

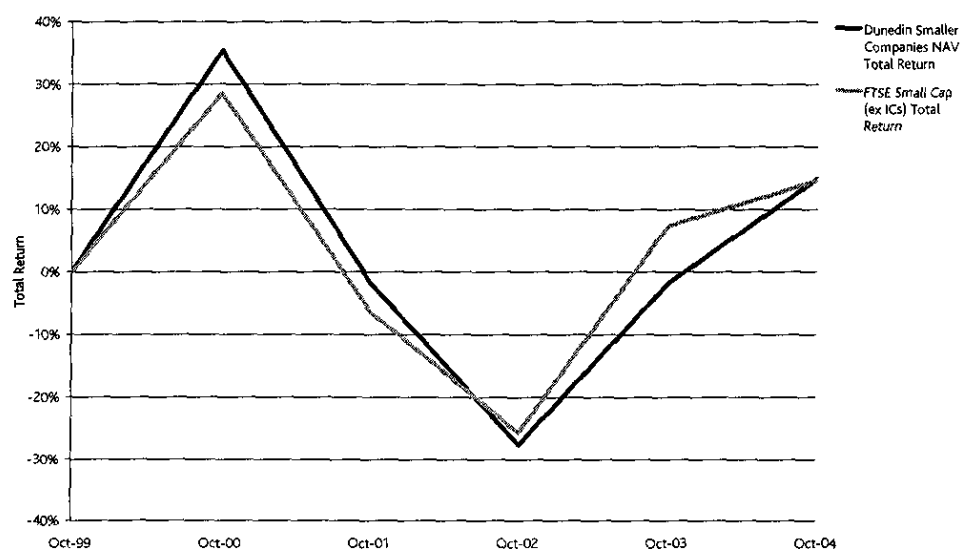
No Director was interested in contracts with the Company during the period or subsequently.

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

A resolution to receive the Directors' Remuneration Report will be proposed at the Annual General Meeting.

The graph below compares the NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the FTSE SmallCap Index (excluding Investments Companies). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.

Total Cumulative NAV Return for the five year period ending 31 October 2004



Source: Share Price – FT; FTSE SmallCap Index (ex IC) Fundamental Data; All figures rebased to 100 at 31 October 1999.

Audited Information*Directors' Emoluments*

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

	2004 £	2003 £
The Earl of Dalhousie	13,450	13,075
T J K Barnes	9,869	-
R M Entwistle	10,750	10,450
M G N Walker	4,437	10,450
N M Yarrow	10,750	10,450
	49,256	44,425

Approval

The Directors' Remuneration Report on pages 26 to 27 was approved by the Board of Directors on 30 December 2004 and signed on its behalf by:

30 December 2004


By order of the Board
Edinburgh Fund Managers plc
Secretary, Edinburgh

Independent Auditor's Report to the Members of Dunedin Smaller Companies Investment Trust plc

We have audited the financial statements on pages 29 to 38. 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 are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 25, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the Corporate Governance Statement on pages 21 and 22 reflects the Company's compliance with the nine provisions of the 2003 FRC 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, including the corporate governance statement and the unaudited part of the Directors' Remuneration 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.

Basis of audit opinion

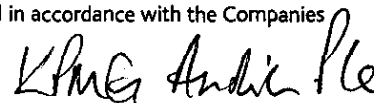
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 of the state of affairs of the Company as at 31 October 2004 and of its return for the year then ended; and
- 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.



KPMG Audit Plc
Registered Auditor
Edinburgh

30 December 2004

Statement of Total Return

	Notes	Year ended 31 October 2004			Year ended 31 October 2003		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Realised gains/(losses) on investments	14	-	4,354	4,354	-	(15,334)	(15,334)
Unrealised gains on investments	15	-	7,019	7,019	-	34,223	34,223
Income from investments	2	2,552	-	2,552	2,098	-	2,098
Interest receivable on short term deposits		577	-	577	584	-	584
Other income		3	-	3	4	-	4
Investment management fee	3/14	(114)	(628)	(742)	(93)	(279)	(372)
Other administrative expenses	4	(299)	-	(299)	(274)	-	(274)
Net return before finance costs and taxation		2,719	10,745	13,464	2,319	18,610	20,929
Interest payable and similar charges	5	(316)	(949)	(1,265)	(317)	(949)	(1,266)
Return on ordinary activities before taxation		2,403	9,796	12,199	2,002	17,661	19,663
Taxation	6	-	-	-	-	-	-
Return on ordinary activities after taxation		2,403	9,796	12,199	2,002	17,661	19,663
Dividends in respect of equity shares	7	(2,289)	-	(2,289)	(2,135)	-	(2,135)
		114	9,796	9,910	(133)	17,661	17,528
Return per Ordinary share (pence)	8	14.58	59.43	74.01	12.09	106.71	118.80

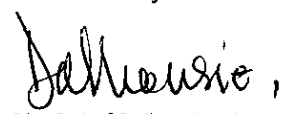
The revenue column of this statement represents the revenue account of the Company.

All revenue and capital items in the above statement are derived from continuing operations.

Balance Sheet

	Note	As at 31 October 2004 £000	As at 31 October 2003 £000
Fixed Assets			
Investments	9	85,138	74,409
Current Assets			
Debtors	10	393	1,204
UK Treasury Bills		6,945	13,926
AAA Money Market Funds		8,100	7,900
Cash and short term deposits		1,053	1,335
		16,491	24,365
Creditors			
Amounts falling due within one year	11	(3,165)	(9,194)
Net Current Assets		13,326	15,171
Total Assets less Current Liabilities		98,464	89,580
Creditors			
Amounts falling due after more than one year	12	(14,837)	(14,828)
		83,627	74,752
Capital and Reserves			
Called up share capital - equity	13	4,068	4,138
Capital reserve - realised	14	64,513	62,771
Capital reserve - unrealised	15	12,538	5,519
Capital redemption reserve	16	557	487
Revenue reserve	17	1,951	1,837
Total Equity Shareholders' Funds		83,627	74,752
Net asset value per Ordinary 25p share (pence)	22	512.88p	450.63p

The financial statements were approved by the Board on 30 December 2004 and were signed on its behalf by:


The Earl of Dalhousie, Director

Cash Flow Statement

	Notes	Year ended 31 October 2004		Year ended 31 October 2003	
		£000	£000	£000	£000
Net cash inflow from operating activities	18		2,253		2,007
Servicing of Finance					
Interest paid		(1,256)		(1,256)	
Net cash outflow from servicing of finance			(1,256)		(1,256)
Taxation					
UK tax paid		-		-	
Total tax paid			-		-
Financial investment					
Purchase of investments		(22,899)		(17,179)	
Sale of investments		18,009		24,056	
Net cash (outflow)/inflow from financial investment			(4,890)		6,877
Equity dividends paid			(2,135)		(2,135)
Net cash (outflow)/inflow before use of liquid resources and financing			(6,028)		5,493
Net cash inflow/(outflow) from management of liquid resources	21		6,781		(8,851)
Financing					
Buyback of Ordinary shares			(1,035)		-
Decrease in cash	20/21		(282)		(3,358)

Notes to the Financial Statements

For the year ended 31 October 2004

1 Accounting policies

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

(a) Revenue, expenses and interest payable - Income from equity investments, including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on fixed interest securities, short term deposits, expenses and interest payable are accounted for on an accruals basis.

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

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

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

(e) Taxation - Deferred taxation is provided on all timing differences, calculated at the current rate of tax relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it will be more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

	2004 £000	2003 £000
2 Investment income		
Dividends		
Franked investment income	2,552	2,098
	<hr/>	<hr/>
	2004 £000	2003 £000
3 Investment management fee		
Investment management fee (including irrecoverable VAT)	742	372
Charged against capital reserve - realised	(628)	(279)
	<hr/>	<hr/>
	114	93

The management fee paid to Edinburgh Fund Managers plc ("EFM"), a subsidiary of Aberdeen Asset Management PLC, 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'). The fee is subject to VAT at the appropriate rate.

In addition, EFM 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 investment companies) over the twelve month period. The investment management fee includes the performance related fee earned during the year of £286,000 (2003 - nil).

The management agreement between the Company and EFM 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.

	2004 £000	2003 £000
4 Administrative expenses		
Secretarial fees	59	58
Directors' fees	49	44
Investment Trust Initiative	32	27
Registrar's fees	40	34
Irrecoverable VAT	29	30
Other expenses	90	81
	299	274

The secretarial fee of £59,000 (2003 - £58,000) is paid to EFM. A contribution of £32,000 (2003 - £27,000) was paid to EFM in respect of marketing and promotion of the Company through their Investment Trust Initiative.

The Chairman who was the highest paid Director received £13,450 (2003 - £13,075). The emoluments of the other Directors were £10,750 per annum (2003 - £9,869) with the exception of Mr Barnes who was appointed to the Board on 1 December 2003 and received £8,995.

Auditors' remuneration amounted to £7,400 (2003 - £6,350). Remuneration paid to the auditors for other assurance services amounted to £2,100 (2003 - £1,625).

	2004 £000	2003 £000
5 Interest payable and similar charges		
8.375% debenture stock interest	1,256	1,256
Amortised debenture stock premium and issue expenses	9	10
	1,265	1,266
Charged against capital reserve - realised	(949)	(949)
	316	317

6 Taxation

There is no liability to corporation tax for the year (2003 - nil).

At the year end, the Company had surplus management expenses and loan relationship losses of £12,178,000 (2003 - £10,463,000) which are not recognised as a deferred tax asset. 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.

	2004 £000	2003 £000
7 Dividends		
Interim dividend of 4.0 p (2003 - 4.0p) paid 30 June 2004	662	662
Final dividend of 10.0 p (2003 - 8.9p) payable 14 February 2005	1,627	1,473
	2,289	2,135

8 Return per Ordinary share

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

	2004	2003
Revenue return	£2,403,000	£2,002,000
Capital return	£9,796,000	£17,661,000
Weighted average number of Ordinary shares in issue	16,482,817	16,550,000

9 Investments

	Listed in UK £000	Unlisted £000	Total £000
Valuation at 31 October 2003	74,377	32	74,409
Unrealised appreciation at 31 October 2003	5,487	32	5,519
Book cost at 31 October 2003	68,890	-	68,890
Additions at cost	16,548	-	16,548
Sales proceeds	(16,966)	(226)	(17,192)
Realised net profits on sales	4,128	226	4,354
Book cost at 31 October 2004	72,600	-	72,600
Unrealised appreciation at 31 October 2004	12,538	-	12,538
Valuation at 31 October 2004	85,138	-	85,138

10 Debtors

	2004 £000	2003 £000
Accrued income	296	290
Amounts due from brokers	97	914
	393	1,204

11 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Amounts due to brokers	608	6,959
Debenture interest	611	611
Management fee	260	90
Other creditors	59	61
Final dividend	1,627	1,473
	3,165	9,194

	2004 £000	2003 £000
12 Creditors: amounts falling due after more than one year		
Repayable after more than 5 years:		
8.375% debenture stock 2022	15,000	15,000
Unamortised debenture stock premium and issue expenses	(163)	(172)
	14,837	14,828

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

The market value of the debenture stock as at 31 October 2004 was £18,029,000 (2003 - £17,072,500). The effect on the net asset value of deducting the debenture stock at market value rather than at par is disclosed in note 22.

	2004 £000	2003 £000
13 Called up share capital		
Authorised:		
20,800,000 (2003 - 20,800,000) Ordinary shares of 25p each	5,200	5,200
Issued and fully paid:		
16,273,719 (2003 - 16,550,000) Ordinary shares of 25p each	4,068	4,138

During the year the Company repurchased 276,281 Ordinary shares at a cost of £1,035,000. This represents 1.67% of the Company's issued share capital and reduced the number of Ordinary shares in issue from 16,550,000 to 16,273,719.

	2004 £000	2003 £000
14 Capital reserve - realised		
Opening balance	62,771	79,333
Realised net gain on investments	4,354	(15,334)
Debenture stock interest	(942)	(942)
Amortised debenture stock premium and issue expenses	(7)	(7)
Management fee	(628)	(279)
Cost of Ordinary shares repurchased	(1,035)	-
Closing balance	64,513	62,771
	2004 £000	2003 £000
15 Capital reserve - unrealised		
Opening balance	5,519	(28,704)
Increase on revaluation of investments	7,019	34,223
Closing balance	12,538	5,519

Notes to the Financial Statements – continued

	2004 £000	2003 £000
16 Capital redemption reserve		
Opening balance	487	487
Transfer from called up share capital arising from the buyback of Ordinary shares	70	-
Closing balance	<u>557</u>	<u>487</u>
	2004 £000	2003 £000
17 Revenue reserve		
Opening balance	1,837	1,970
Transferred to/(from) revenue account	114	(133)
Closing balance	<u>1,951</u>	<u>1,837</u>
	2004 £000	2003 £000
18 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities		
Revenue before interest and taxation	2,719	2,319
Increase in accrued income	(6)	(52)
Increase in creditors	168	19
Management fee charged to capital	(628)	(279)
	<u>2,253</u>	<u>2,007</u>
19 Analysis of changes in financing during the year		
	2004	2003
	Equity share capital	Equity share capital
	£000	£000
Opening balance	4,138	4,138
Share buybacks	(70)	-
Amortisation of premium and expenses of issue	-	10
Closing balance	<u>4,068</u>	<u>4,138</u>
	2004 £000	2003 £000
	Debtures & loans	Debtures & loans
	£000	£000
Opening balance	14,828	14,818
Share buybacks	-	-
Amortisation of premium and expenses of issue	9	10
Closing balance	<u>14,837</u>	<u>14,828</u>
	2004 £000	2003 £000
20 Analysis of changes in cash during the year		
Opening balance	1,335	4,693
Net cash outflow	(282)	(3,358)
Closing balance	<u>1,053</u>	<u>1,335</u>

21 Analysis of changes in net funds

	Balance at 31 October 2003	Cash flows	Amortisation of issue expenses and premium	31 October 2004
	£000	£000	£000	£000
Cash and short term deposits	1,335	(282)	-	1,053
UK Treasury Bills	13,926	(6,981)	-	6,945
AAA Money Market Funds	7,900	200	-	8,100
Debt due after more than one year	(14,828)	-	(9)	(14,837)
Net funds	8,333	(7,063)	(9)	1,261

22 Net asset value per share

Total Shareholders' funds has been calculated in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'. The analysis of total Shareholders' funds on the face of the balance sheet does not reflect the rights under the Articles of Association of the Ordinary Shareholders on a return of assets. These rights are reflected in the net asset value and the net asset value per share attributable to Ordinary Shareholders at the year end, adjusted to reflect the deduction of the debenture stock at par. A reconciliation between the two sets of figures is given below:-

	2004	2003
Total Shareholders' funds	£83,627,000	£74,752,000
Adjusted net assets	£83,464,000	£74,580,000
Number of equity shares in issue at year end	16,273,719	16,550,000
 Total shareholders' funds per share	 513.88p	 451.67p
Less: Unamortised debenture stock premium and issue expenses	(1.00p)	(1.04p)
 Adjusted net asset value per share	 <u>512.88p</u>	 <u>450.63p</u>

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

Opening adjusted net assets	74,580	57,042
Total recognised capital gains for the year	9,796	17,661
Revenue return for the year	2,403	2,002
Dividends appropriated in the year	(2,289)	(2,135)
Movement in unamortised debenture stock premium and issue expenses	9	10
Share buybacks	(1,035)	-
 Closing adjusted net assets	 <u>83,464</u>	 <u>74,580</u>

The net asset value per share, adjusted to include the debenture stock at a market value of £18,029,000 (2003 - £17,072,000) rather than at par, is 494.26p (2003 - 438.12p).

	2004 £000	2003 £000
23 Reconciliation of movement in equity shareholders' funds		
Opening Equity Shareholders' funds	74,752	57,224
Total recognised capital gains for the year	9,796	17,661
Net revenue for the year	114	(133)
Share buybacks	(1,035)	-
Closing Equity Shareholders' funds	83,627	74,752

24 Commitments and contingencies

There are no placing commitments at 31 October 2004 (2003 - nil).

25 Risk management, financial assets and liabilities

Risk management

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

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

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

Financial assets and liabilities

The Company's financial instruments comprise equity investments, treasury bills, cash balances, AAA money market funds, debenture stocks and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement.

Fixed asset investments (see note 9) are valued at middle market prices which equate to their fair values. The fair values of all other assets and liabilities other than the debenture stock, as detailed in note 22, are represented by their carrying values in the balance sheet.

How to Invest in Dunedin Smaller Companies Investment Trust plc

Investment Trusts

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

How to Invest

Ordinary Shares

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

Product Details

InvestIT – The Edinburgh Fund Managers

Investment Trust Savings Plan

InvestIT provides a straightforward way to invest in Dunedin Smaller Companies Investment Trust and other investment trusts offered by Edinburgh Fund Managers. Investors can make regular monthly payments (minimum £30 per month) or invest occasional lump sums (minimum £250 initially and £30 thereafter). Lower amounts of £20, £150 and £20 respectively can be made in InvestIT for Children. Existing shareholders can also transfer their shares into the Plan and have their dividends reinvested. There is no charge for buying or holding shares through InvestIT other than 0.5% Government Stamp Duty which is currently payable on all share purchases. There is a nominal £10+VAT transaction fee applied to all sales.

Edinburgh Fund Managers

Investment Trust ISA/PEP

ISA

The Edinburgh Fund Managers Investment Trust Individual Savings Account (ISA) is a tax efficient savings vehicle. There are two types of ISAs available, a Maxi and a Mini. A Maxi ISA allows investors to maximise the amounts placed in stocks and shares. Investors will have the opportunity to invest up to £7,000 in each of the tax years up to 2005/2006 in Dunedin Smaller Companies Investment Trust where they take out a Maxi ISA.

The initial charge is £30 +VAT and the annual management fee is 0.5%+VAT (capped at £60 +VAT). No charges are made for buying or selling shares other than Government Stamp Duty on share purchases.

PEP

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

The Edinburgh Fund Managers

Investment Trust Pension

The Investment Trust Pension enables investors to save for retirement by investing in Dunedin Smaller Companies Investment Trust. A wide range of investors can enjoy the benefits of a Personal Pension. Contributions can be made regularly or by lump sums, and there are low minimum investment amounts.

Note

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

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

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

Keeping you Informed

The Company's share price appears under the heading 'Investment Trusts' in the Financial Times, and other national newspapers. Investors can also obtain the latest share price by phoning FT Cityline on 0906-843 2385. All calls cost 60p per minute.

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

How to Invest – continued

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

For information concerning your shareholding, please contact:

Registrar

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
Telephone: 0870-601 5366
Text Phone: 0870-240 1847
Website: www.shareview.co.uk

Literature Request Service

For literature and application forms for our Investment Trust products, please contact:

Telephone: 0800-027 9558
Email: efm@lit-request.com

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

InvestIT Administrator

Lloyds TSB Registrars Scotland
Registrar Department (SP)
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Telephone: 0870-606 0268

Individual Savings Account/Personal Equity Plan Administrator

Bank of New York Europe Ltd
(Edinburgh Fund Managers plc)
ISA/PEP Department
12 Blenheim Place
Edinburgh EH7 5ZR
Telephone: 0800-028 6789

Pension Administrator

Edinburgh Pension Centre
Personal Pension Management Limited
141 Castle Street
Salisbury
Wiltshire SP1 3TB
Telephone: 0800-137 079

The above has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Edinburgh Fund Managers plc which is authorised and regulated by the Financial Services Authority.

Glossary

Actual Gearing Ratio	Fixed assets divided by Net Asset Value (Articles basis)
Discount	The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
Earnings per share	Revenue attributable to equity Shareholders divided by the weighted average number of Ordinary shares.
Net Asset Value (debt at par)	The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities and are valued at the nominal or par value. To calculate the net asset value per ordinary or capital share, the current repayment values of all the other classes of share are treated as liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.
Net Asset Value (debt at market value)	The value of total assets less liabilities calculated as above, but valuing liabilities at their current market or fair value.
Potential Gearing	Total assets divided by Net Asset Value (Articles basis)
Prior Charges	The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Total Assets	Total Assets less current liabilities (before deducting prior charges as defined above).
Total Expense Ratio	Total annualised net operating expenses after tax divided by the average month-end net asset value during the period calculated in accordance with the Fitzrovia post tax method.
Total Return	Total Return involves reinvesting the net dividend in the month that the share price goes up. The NAV Total Return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date.

Notice of Meeting

Notice is hereby given that the seventy seventh Annual General Meeting of Dunedin Smaller Companies Investment Trust plc will be held at Tayforth House, 9 Luna Place, Technology Park, Dundee DD2 1TP on Thursday 10 February 2005 at 12 noon, for the following purposes:

To consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 6 inclusive will be proposed as Ordinary Resolutions and Resolution 7 will be proposed as a Special Resolution:

ORDINARY BUSINESS

1. To receive the reports of the Directors and auditors and the financial statements for the year ended 31 October 2004.
2. To receive the Directors' remuneration report for the year ended 31 October 2004.
3. To propose a final dividend of 10p on the Ordinary shares.
4. To re-elect Mr Entwistle as a Director of the Company
5. To re-appoint KPMG Audit Plc as auditors of the Company;
6. To authorise the Directors to fix the remuneration of the auditors for the year to 31 October 2005.

SPECIAL BUSINESS

7. That in substitution for any existing authority, the Company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163 (3) of the Act) of Ordinary shares of 25p each in the Company ('shares') provided that:
 - (i) the maximum number of shares hereby authorised to be purchased is 14.99% of the issued share capital of the Company as at the date of the passing of this resolution;
 - (ii) the minimum price which may be paid for a share shall be 25p;
 - (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and
 - (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2006 save that the Company may, prior to such expiry, enter into a contract or contracts to purchase shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By order of the Board

 Edinburgh Fund Managers plc
Secretary

30 December 2004

Registered office: Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD

Notes:

1. A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
2. 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.
3. 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 8 February 2005 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of Ordinary shares registered in their name at that time. Changes to the entries on the register of members after 6.00pm on 8 February 2005 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
4. There are special arrangements for holders of shares through The Edinburgh Fund Managers Investment Trust Savings Plan, Investment Trust PEP/ISA and Investment Trust Pension. These are explained in the 'Letter of Direction' which such holders will have received with this report.

Dunedin Smaller Companies Investment Trust PLC

(for use by holders of ordinary shares)

Form of Proxy

(For use at the Annual General Meeting on 10 February 2005)

I/We _____

of _____

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

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company
to be held on 10 February 2005 at 12 noon and at any adjournment thereof.

Resolutions (see page 42)

For

Against

Abstain

1	2	3	4	5	6	7

Signature _____ Date _____

Notes:

1. If you wish to appoint as your proxy some person other than the Chairman of the Meeting please insert in block capitals the full names of the person of your choice, delete the words 'the Chairman of the Meeting' and initial the alteration. A proxy need not be a member of the company.
2. In the case of a Corporation, this Form of Proxy must be under seal or signed by a duly authorised officer or attorney.
3. To be valid, this Form of Proxy, together with the Power of Attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or attorney, must be deposited at the offices of the company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZR, not later than 48 hours before the time appointed for the Meeting.
4. In the case of joint holders, the signature of any one joint holder is sufficient. If more than one joint holder tenders a vote in person or by proxy, the vote of the person whose name stands first in the register will be accepted to the exclusion of the votes of the other joint holders.
5. Completion of this Form of Proxy will not prevent a member from attending the Meeting and voting in person should he so wish.

Corporate Information

Directors

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

Manager, Secretary and Registered Office

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD

www.edfd.com

Company Registration Number: SC 14692

Stockbrokers

Cazenove & Co. Ltd
20 Moorgate
London EC2R 6DA

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Shareholder Helpline: 0870 601 5366
(Calls charged at National Call Rate)

Auditors

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

Bankers & Custodian Bankers

Bank of New York Limited
One Canada Square
London E14 5AL

Website

www.dunedinsmaller.co.uk