SC014692

Dunedin Smaller Companies Investment Trust PLC

Annual Report and Accounts

31 October 2011

Contents

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If you have sold or otherwise transferred all of your shares in Dunedin Smaller Companies Investment Trust PLC, please pass this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Financial Highlights

	2011	2010
Net asset value capital return	**–7.3%**	+31.7%
Share price	**+3.2%**	+25.2%
FTSE SmallCap Index (ex Investment Companies)	**–9.6%**	+3.2%
Dividend per share[A]	**4.85p**	4.60p

[A] Reflects the dividends declared for the year in which they were earned.

Net Asset Value per share
At 31 October – pence

Mid-market price per share
At 31 October – pence

Dividends per share
pence

Financial Calendar

15 December 2011	Announcement of results for year ended 31 October 2011
2 February 2012	Annual General Meeting in Edinburgh (12 noon)
9 February 2012	Final Ordinary dividend payable for year ended 31 October 2011
June 2012	Announcement of Half-Yearly Financial Report for six months ending 30 April 2012
July 2012	Interim Ordinary dividend payable for year ending 31 October 2012

Corporate Summary

The Company

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

Manager

Aberdeen Asset Managers Limited ("AAM") or the ("Manager").

Investment Objective

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

Benchmark

FTSE SmallCap Index (excluding Investment Companies).

Investment Policy and Approach

The Company maintains a diversified portfolio of investments, typically comprising in the region of 45 to 75 holdings (but without restricting the Company from holding a more or less concentrated portfolio from time to time). The Company is unconstrained as to the market sectors in which it may invest.

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

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

It is the policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

The Company complies with Sections 1158-1159 of the Corporation Tax Act 2010 and does not invest more than 15% of its assets in the shares of any one company.

Investment Process

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

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

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

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

Capital Structure

As at 31 October 2011, the Company has a capital structure comprising 47,855,443 Ordinary shares of 5p each and 8,526,157 Subscription shares of 0.001p each. At the year end, the Company had a £5 million, 1 year revolving facility agreement with Scotiabank Europe PLC. This facility expired on 25 November 2011 and was extended with Scotiabank for a £5 million, 3 year facility of which £5 million was drawn down as at 14 December 2011.

Gearing

The Board is responsible for determining the gearing policy of the Company. The current guidelines from the Board authorise the Manager to invest up to £5 million of borrowings without reference to the Board.

Total Assets and Net Asset Value

The Company had total assets of £73.4 million and a net asset value of 143.03p per Ordinary share at 31 October 2011.

Market Capitalisation

The Company had a market capitalisation of £62.0 million at 31 October 2011.

Risk

Managing a portfolio of shares in smaller companies necessarily involves certain risks, the more important of which are set out on pages 18 and 39 to 43 of this Annual Report.

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

Duration

The Company does not have a fixed life.

Share Dealing

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

Management and Secretarial Agreements

The Company has an agreement with AAM for the provision of management services, details of which are shown in note 3 to the financial statements. The basic management fee is 0.4% per annum of adjusted gross assets. There is also a performance-related management fee calculated at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1.0% by which the Company's net asset value performance outperforms the capital performance of the benchmark index over the previous 12 month period (a performance fee of £329,000 was earned in respect of the year ended 31 October 2011). The agreement is terminable by either party on three months' notice.

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

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

AIC

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

Company Secretary

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Award Winning Performance

Chairman's Statement

The Earl of Dalhousie
Chairman

Our investment portfolio is constructed to deliver both capital and income growth and we remain focused on identifying good quality companies run by strong management teams, particularly where an above-average dividend yield is available. As a general rule, we do not invest in loss-making businesses which may be high-risk and carry a material chance of failure. The success of this approach is reflected in our returns over longer time periods, as outlined in the table below.

Over the twelve months ended 31 October 2011, Dunedin Smaller Companies Investment Trust's (the Company) net asset value per share (NAV) fell by 7.3% from 154.2p to 143.0p while the share price rose by 3.2% from 125.5p to 129.5p. The FTSE SmallCap Index (excluding Investment Companies) fell by 9.6% - the FTSE 100 Index fell by 2.3%. The out-performance of the NAV relative to the benchmark was attributable to stock selection and merger and acquisition activity in portfolio investments. The Company invested part of its borrowings in equities during the year but held a small net cash position at 31 October 2011.

Equity markets remained volatile and the positive returns from the first half of the year were more than reversed during the sharp sell off in global equity markets over the summer months. The good news flow from the corporate sector was offset by bouts of nervousness from investors over escalating government debt in the Euro area and geopolitical issues in various North African and Middle Eastern countries. The price of oil and gold surged although interest rates in the UK and US were maintained at historically low levels despite increasing inflation pressures. These factors caused investors to become more risk averse and this change in sentiment was reflected in the performance of the UK smaller companies stock market indices which fell further than the more defensive and internationally focused large cap stocks.

The subscription shares which are listed on the London Stock Exchange had a closing price of 1.87p per share at 31 October 2011. The final right to subscribe will be in February 2012.

In our financial statements to 31 October 2010, we recognised as income a sum of £470,000 representing the VAT charged on our management fees between 1990 and 1996 and between 2001 and 2003. In this report, we are recognising a further sum of £293,000 representing simple interest on the total amounts repaid to date. A claim has been submitted for compound interest on the VAT repaid, although the amount recoverable remains uncertain and therefore there has been no recognition of any sums due from this claim in these statements. The interest received has been credited to the revenue account.

In these uncertain times, it is encouraging that a number of companies in the portfolio have increased dividend payouts. There has been an improvement in the Company's revenue return per share from 4.05p to 5.34p although 0.61p of the increase relates to the receipt of non recurring interest on VAT repayments. The Board is proposing an increase in the final dividend to 2.90p per share (2010 - 2.75p) which will be paid on 9 February 2012 to shareholders on the register on 13 January 2012. When combined with the interim dividend of 1.95p, the total dividend for the year will amount to 4.85p (2010 – 4.60p), an increase of 5.4%. Following the payment of the final dividend, revenue reserves per share will amount to 6.09p.

The Company entered into a one year revolving credit facility with Scotiabank Europe PLC in November 2010. Since the end of the financial year this facility expired and has been replaced with a new 3 year facility of £5 million from Scotiabank Europe PLC. The interest rate margin of the new facility is 1.45% over LIBOR compared to 1.35% under the previous arrangement.

The Company did not repurchase any ordinary shares during the year. The Directors will continue to monitor the Company's discount with that of its peer group and will use the Company's share buyback powers, subject to market conditions, when it feels this to be appropriate. The discount at 31 October 2011 was 9.5% which compares with an average of 16.7% for the Association of Investment Companies UK Smaller Companies sector.

The economic outlook for the UK continues to be uncertain although company profitability has benefited from both historic cost cutting and higher volumes. Investors however remain nervous and, as a result, equity markets are volatile in the face of a number of potentially negative factors. These include government debt issues in a number of European countries and the impact of fiscal tightening in the UK on economic growth. However, these potential storm clouds should not detract from the exposure of our portfolio to more robust foreign markets, particularly the USA, Asia and emerging markets. If markets remain volatile, these conditions will present opportunities and we are well-placed to invest in good quality companies which offer robust balance sheets, transparent profitability and strong cash flows.

Corporate Governance

The Board reviews annually the performance of the Manager, the Chairman and the Board as a whole. The Board has assessed the performance of the Manager, the investment process and risk controls. The Directors have reviewed the terms of the management agreement and believe that the continuing appointment of the Manager is in the interests of shareholders.

Annual General Meeting

The Annual General Meeting this year will be held at the Manager's office at 40 Princes Street, Edinburgh on 2 February 2012, at 12.00 noon and I would encourage shareholders to attend. In addition to the formal business of the meeting, our portfolio manager, Ed Beal, will provide an update on the outlook for smaller companies and there will also be an opportunity for shareholders to meet informally with the Directors at the conclusion of the Annual General Meeting.

Performance to 31 October 2011	**1 year return**	**3 year return**	**5 year return**	**10 year return**
Total return*	**%**	**%**	**%**	**%**
Share price	+6.6	+101.1	+10.1	+141.9
Net asset value per share	-4.6	+78.0	+5.7	+98.1
FTSE SmallCap Index (ex IC's)	-6.9	+51.1	-24.4	+31.7

*The total return for share price and net asset value is calculated on the basis of reinvesting dividends to shareholders on the ex-dividend date.

The Earl of Dalhousie
Chairman
14 December 2011

Manager's Review

Small companies started the year well continuing on the upward path of the prior year. As we entered 2011 this progress flattened out but returns remained positive albeit with less frequent outperformance of their larger counterparts. By July they had reached a peak, with the benchmark achieving a level not seen since early 2008. However, as risk aversion began to increase small companies relinquished all the year's earlier gains.

Volatility was the most notable feature of the year. There were some days, particularly during the summer, when markets moved around dramatically. Indeed, there were a record number of days when moves, both gains and losses, of more than 1% were posted early in the day only for these to be reversed by the end of the day. Equally striking was the lack of general activity in capital markets. In comparison to previous years there was relatively little merger and acquisition activity. Rights issues were infrequent and largely limited to those required for growth rather than balance sheet repair and IPO activity was virtually non-existent.

As we entered the financial year we were again reminded of the fragility of the economic recovery as the Federal Reserve announced that it was to inject a further $600 billion into the US economy. The authorities were clear that deflation represented a more pressing concern than the risk that such activity would fuel a bout of inflation. Although the US economy was growing it was concerning that growth should be so anaemic in such a highly stimulatory environment. This approach saw the US diverge further from the path being taken by the European nations who were choosing austerity instead of further indebtedness.

Simultaneously, sovereign debt was re-emerging as a potential danger. Investors recognised that the €750 billion bailout package previously announced by the European Union and the International Monetary Fund may be insufficient to prevent a default as Ireland was forced to accept support.

In a continuation of a trend experienced in the prior year, investors continued to flip erratically between being very concerned about a further slowdown and the European debt crisis and optimism that the recovery could be sustained. In simple terms this manifested itself as fluctuations in volatility and appetite for risk. These factors were having a greater impact on small company equity performance than was the underlying performance of the businesses.

In early 2011 conditions in the UK worsened. Consumer confidence was already suffering the effects of what was a particularly harsh winter. This was not helped by the increase in VAT to 20% and inflation climbing to 3.7%. However, it was the shock news that the economy had contracted in the final quarter of 2010 that pushed confidence to its lowest level for 20 years. This was despite the fact that the austerity programme in the UK had yet to be fully implemented.

In aggregate, companies were reporting results in line with expectations but there was an acceleration in profit warnings. Broadly these fell into two camps, those that were blamed on the weather and the more concerning ones that related to ever rising input cost inflation. Consumer orientated businesses were finding life increasingly difficult.

Commodities had been rising strongly and oil pushed through the $100 barrier in February. The oil price continued to increase as the Arab Spring led to rising supply concerns, particularly once supply from Libya was effectively turned off. It was not just oil that was increasing in price. Most hard commodities were exhibiting significant price increases. This was having two effects. At the corporate level it was exposing business models that lacked pricing power. With weak demand and cash constrained customers many companies found themselves struggling to pass on these rising costs. In the economy these cost increases were feeding through to a level of inflation that was way above the official target. Interest rates might have been expected to rise in such an environment. But the Monetary Policy Committee took the view that this supply led inflation was transient and that the economy wasn't strong enough to weather an increase in rates.

With the onset of spring came the news of the tragic events of the Japanese earthquake and subsequent tsunami. It was notable that markets did not react more negatively to this. There were though certain industries, specifically automobiles and electronics which suffered massive disruption to their supply chains. For some of these companies it took until late autumn to resolve these problems. The explosion at Fukushima had an even broader effect impacting nuclear policy particularly in Germany. Its ramifications continue to be felt across international energy policies.

There was some more positive news especially from the US where growth numbers were being revised upwards to a respectable 3.1%. Meanwhile, the European Central Bank was sufficiently confident in the strength of recovery in the region to feel able to increase interest rates, despite the additional pressure that this would place on already struggling peripheral nations. Both these bouts of optimism turned out to be short lived.

In the early summer commodity prices started to decline as concerns grew that the Chinese economy was slowing down and that other Asian central banks had been too aggressive with their interest rate policies. In May alone the oil price fell by 7%.

By the middle of the year debt concerns were back to the fore. In Europe, Greece looked increasingly likely to default and the danger that this would spread to Italy and Spain was at the front of investors' minds. The Euro began to weaken and yields on Spanish and Italian debt began to rise. Across the Atlantic an additional crisis was developing. In this instance it was unrelated to liquidity or solvency but arose due to US policy makers' inability to agree on a path for a short term increase in the nation's indebtedness followed by a path to reduce this. Although an agreement was ultimately reached it was accompanied by a downgrading of the country's debt rating by Standard & Poor's.

Simultaneously, the economic data were worsening as expectations for growth in the US were revised downward as they were for the UK. The Chairman of the Federal Reserve suggested that further stimulus may be necessary. In Germany the IFO, a measure of business confidence declined for the fifth consecutive month. The results of the latest round of European bank stress tests were released and appeared broadly positive. However, they were greeted with scepticism by investors who noted that the tests had excluded the possibility of a sovereign default.

Although consumer facing businesses were finding life increasingly tough many industrial companies were delivering good levels of sales and profits growth. There was though a recognition that with margins at peak levels and a more difficult environment on the horizon there was a growing risk to earnings expectations.

All this culminated in an increase in risk aversion and the markets began to fall precipitously, almost breaching the 5000 level for the FTSE 100 Index in the second week of August.

Recognising the dangers, the US authorities announced that interest rates would be kept at near zero levels until 2013 and a short time later they instigated the latest round of stimulation in the form of "Operation Twist". This was designed to extend the previous package rather than to supply additional funds. In the UK the Monetary Policy Committee indicated that it too was considering additional stimulus. Italy and Greece announced further austerity packages. Whilst these were welcomed by investors there was also a high level of scepticism given the growing belief that neither nation would actually achieve these targets. Germany passed new legislation that would allow an increase in the size of the European Financial Stability Fund. Commodity prices continued to fall.

The final month of the year was truly remarkable. Indeed, we witnessed a 15% trough to peak move across markets. This was the largest ever intra month swing in the UK. Having initially continued their descent markets suddenly reversed as investors began to believe that European politicians would produce a more robust plan to tackle the debt crisis. Such action was indeed forthcoming when it was announced that there would be a recapitalisation of the banks across the region. This was to be combined with private investors being required to bear a 50% reduction in the value of their Greek sovereign bonds and a very significant increase in the firepower of the European Financial Stability Fund.

Investors had barely had time to digest what appeared to be good news before the Greek Prime Minister declared that his country was to hold a referendum. This would question whether, despite this offer of massive assistance, the Greek people were indeed prepared to implement the necessary additional austerity measures.

Portfolio Activity

Despite the travails facing the global economy many companies continued to experience good levels of sales growth. As costs have remained under control this has manifested itself in the form of further positive operational leverage and hence expansion in margins. At the same time companies have been de-gearing and balance sheets, excluding some financial companies, are now, in aggregate, as healthy as they have been for some years. These two factors have combined to produce some pleasing levels of growth in dividend distributions. The Company has been a beneficiary of this. During the year 19 companies held in the portfolio have increased their dividends by more than 10%. Whilst recognising that in some cases these have been coming from low bases a few are worthy of being highlighted.

XP Power, the designer and manufacturer of power converters, has reaped the fruits of the last five years of restructuring and changes made to its business model. Having increased their dividend by 64% in calendar year 2010 they increased it by a further 46% at their most recent interim results. This was on the back of a 63% improvement in profits.

John Menzies the provider of aviation services and newspaper and magazine logistics delivered a very impressive 61% increase in its distribution.

Victrex is a speciality chemical company that manufactures a unique product called PEEK. Earnings recovered strongly, rising by 58% as demand returned and the company increased the interim dividend by 25%.

TT Electronics manufactures specialist sensors for a broad range of industries. Having been through a major strategic review the company had returned to the dividend list the prior year. As the benefits of the review have begun to be felt in 2011 the dividend has been increased by 400%, albeit from a low level.

Clearly it has not all been positive news. The portfolio had an investment in the mechanical and electrical fit-out company, T. Clarke. This company was suffering from a deterioration in its end markets and took the decision to cut the dividend. This was disappointing as in our view the dividend was sustainable given the strength of the balance sheet. However the strategy was evolving to one more focussed on utilising cash to make acquisitions. We have exited this holding. Numis the investment bank has, not surprisingly, had a tough year and therefore reduced its dividend though the yield remains attractive.

A note of caution is warranted at this point. Despite the successes of this year regarding dividends, it is unrealistic to expect similar levels of growth in 2012. Whilst we do expect further improvements in distributions, the pressures on earnings expectations mean that dividend growth is likely to slow.

The portfolio has again been a beneficiary from merger and acquisition activity. We described in last year's Manager's Report that one holding, Forth Ports, had received a bid from its largest shareholder. We also commented that we believed this undervalued the company and that we had been happy to buy more shares when the bid was rejected. During the course of 2011 the bidders returned and we secured an exit at a price some way higher than that originally mooted.

Two other holdings were acquired. Holidaybreak provides travel and accommodation for the education market. The attractions of this market were recognised by their acquirer Cox and Kings. Chaucer is a non life insurer operating on the Lloyds market. Although this has been a difficult year for many such companies with high levels of natural disaster based claims this business also had exposure to some attractive niches. It was acquired by Hanover.

Two of the businesses in the portfolio had fund raisings to finance acquisitions. Chemring Group bought General Dynamic's chemical and biological detection business and RPC acquired the European injection moulding business Superfos. In both cases we were happy to support our investments with these fundraisings and to date both have performed as per our expectations. Indeed Superfos has been a better acquisition than we originally envisaged.

We introduced four companies to the portfolio.

Elementis is a leading manufacturer of rheological products for the coatings industry. Most of their sales are into niches where they will compete with perhaps just one other company. They have a growing speciality business that is exposed to the cosmetics and shale gas markets. Their products are critical to the performance of the end product, which combined with the fact that they represent a small percentage of the product's total cost means that the company has good pricing power.

Rathbone Brothers is a private client asset management business. We believe this market will deliver structural growth over the long term and that the company is well placed to exploit this opportunity. The business has a competitive advantage over many of its peers in that it holds a banking licence. This allows it to provide low risk short term financing to clients of whom it has detailed knowledge through its asset management operations.

Euromoney is a niche provider of business to business information. Although classified as a media company it is a world away from the print based media companies who face enormous disruptions to their business models as more and more information is published on the web. Being critical in nature, of relatively low cost and distributed substantially in digital form it is well protected from these disruptive factors. Additionally, with 50% of revenues coming via subscriptions they have a lot more visibility than most media companies.

Berendsen is a provider of work wear and textile rentals. It also has a growing facilities business that supplies mats and wash room services. Each of the businesses is characterised by complex logistics and a requirement for local scale. With market leading positions across a range of European geographies the company is well positioned to continue to deliver growth as the acceptance of outsourcing increases and the company consolidates sub scale small competitors.

Outlook

As we move into the new financial year, uncertainty best describes the outlook for equity markets.

We continue to witness tumultuous events on an almost daily basis. We now face a very real possibility that Italy could default on its obligations. Silvio Berlusconi, perhaps one of the most tenacious of Europe's leaders has been forced from office and replaced by an unusual technocratic government. The hoped for increase in the capability of the European Financial Stability Fund to provide financial support has failed to occur. Indeed if Italy's troubles worsen the Fund's firepower will be reduced rather than increased. Investors seem almost to have become inured to these events. What would only a short time ago have been regarded as unthinkable is now greeted with little more than a collective shrug of the shoulders and accepted as the "new normal."

Throughout the Euro area economic growth is slowing. The UK is still expected to grow in 2012 by as little as 1%. There is a more positive outlook for the US where there are signs that the recovery is on-going. Inflation remains under control, employment is not deteriorating and growth might be double that experienced on this side of the Atlantic. Emerging markets continue to trade well though there are signs of slowing growth in China.

In such an environment it seems fair to expect 2012 to be a more difficult year for companies. Having had two years of recovery in sales and earnings, further growth is likely to be more elusive. This is particularly the case for businesses that lack pricing power. It is also notable that given margins are already at peak levels. This means that future growth in profits will be more dependent on increases in revenues. That does not mean that we anticipate a period of contraction. Rather a year of slowing growth seems more probable. It is worth remembering that despite the gloomy prognosis for the domestic economy, approaching half of small companies' revenues are earned overseas. The exposure to developing markets is greater than many investors appreciate.

There are two other positive factors as we look towards next year. Firstly, company balance sheets are, in aggregate, in much better health than they were in 2007 and 2008. Therefore they are better positioned to weather any down turn than they were previously. Secondly, the market's role is to be forward looking. Although analysts have not yet factored in a material slowing of growth it does seem that investors have begun to do so. Despite this reduction in expected growth, if one takes a long term view then equities do not appear expensive on either an absolute, historical or relative basis.

Macroeconomic events, specifically relating to the European debt crisis are most likely to determine the outcome for equity markets next year. Whilst we do not profess to have the solution to these problems we do believe that the implications of a disorderly default followed by a disintegration of the Euro are so severe that the leaders of France and Germany, in particular, will eventually take whatever action is necessary to ensure there is no collapse. However, until these problems have been addressed, volatility is likely to remain a feature of markets.

We will continue to invest in companies that have strong business models and that we believe can deliver through cycle growth in earnings and dividends over the medium term.

Ed Beal
Aberdeen Asset Managers Limited
14 December 2011

Results

Financial Highlights

	31 October 2011	31 October 2010	% change
Total assets less current liabilities (before deducting bank loan)	£73,446,000	£78,809,000	
Equity shareholders' funds (Net Assets)	£68,446,000	£73,809,000	
Share price (mid market)	129.50p	125.50p	3.2
Net Asset Value per share	143.03p	154.24p	(7.3)
FTSE SmallCap Index (ex IC's) (capital gains basis)	2,273.27	2,515.51	(9.6)
Discount (difference between share price and net asset value)			
where borrowings are deducted at par	9.5%	18.6%	
Gearing (ratio of borrowing to shareholders' funds)			
Actual gearing ratio	(2.93%)	(1.91%)	
Potential gearing ratio	7.31%	6.77%	
Dividends and earnings			
Total return per share[A]	(6.51p)	41.66p	
Revenue return per share	5.34p	4.05p	31.9
Dividends per share[B]	4.85p	4.60p	5.4
Dividend cover (including proposed final dividend)	1.10	0.88	
Revenue reserves[C]	£4,302,000	£3,995,000	
Operating costs			
Total expense ratio [D]	1.38%	1.47%	

[A] Measures the total revenue and capital return for the year divided by the weighted average number of Ordinary shares in issue (see Income Statement).
[B] The figures for dividends per share reflect the years in which they were earned (see note 7 on page 35).
[C] The revenue reserve figure does not take account of the proposed final dividend amounting to £1,388,000 (2010 – £1,316,000).
[D] Based on average net assets including income (2010 restated using average net assets including income).

Performance

	1 year % return	3 year % return	5 year % return
Capital return			
Share price	+3.2	+75.6	–10.4
Net Asset Value per share	–7.3	+58.7	–11.4
FTSE SmallCap Index (ex IC's)	–9.6	+36.7	–35.7
Total return (Capital return plus dividends paid)			
Share price	+6.6	+101.1	+10.1
Net Asset Value per share	–4.6	+78.0	+5.7
FTSE SmallCap Index (ex IC's)	–6.9	+51.1	–24.4

Dividends

	Rate per share	xd date	Record date	Payment date
Proposed final dividend 2011	2.90p	11 January 2012	13 January 2012	9 February 2012
Interim dividend 2011	1.95p	6 July 2011	8 July 2011	29 July 2011
2011	**4.85p**			
Final dividend 2010	2.75p	2 February 2011	4 February 2011	28 February 2011
Interim dividend 2010	1.85p	7 July 2010	9 July 2010	23 July 2010
2010	**4.60p**			

Performance

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

Five years to 31 October 2011 (rebased to 100 at 31/10/06)

Share Price Discount to NAV (%)

Five years to 31 October 2011

Ten Year Financial Record

Year to 31 October	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenue available for Ordinary dividends (£'000)	1,647	2,002	2,403	2,795	3,128	2,432^	2,517	1,525	1,939	2,556
Per share										
Net revenue return (p)	2.0	2.4	2.9	3.4	3.8	4.5	5.2	3.2	4.1	5.3
Net dividends paid/proposed (p)	2.6	2.6	2.8	3.1	3.6	4.3	4.5	4.5	4.6	4.9
Net asset value (p)	68.9	90.1	102.6	123.3	161.3	167.0	90.1	117.1	154.2	143.0
Total return (p)	(24.4)	23.8	14.8	21.8	41.1	4.4	(73.6)	31.4	41.7	(6.5)
Shareholders' funds (£'000)	57,224	74,752	83,627	100,515	131,397	82,364	43,170	56,020	73,809	68,446

^ The Tender Offer in November 2006 had an impact on the income account.

The per share values for the years 2002 to 2006 have been adjusted by a factor of five to reflect the sub-division of the Ordinary 25p shares into 5 Ordinary 5p shares in November 2006.

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

Investment Portfolio – Ten Largest Investments

As at 31 October 2011

Company	Sector classification	Value of holding 2011 £'000	Total assets %	Value of holding 2010 £'000
RPC Group RPC is Europe's leading manufacturer of rigid plastic packaging. Their products are benefitting from regulatory driven substitution. Their ability to manufacture a broad array of different shapes and sizes combined with innovative printing and labelling techniques provides a barrier to the more volume orientated larger competitors.	General Industrials	3,035	4.1	1,823
Fenner Fenner is a specialist producer of advanced polymer solutions. Their business can broadly be split into two divisions. Conveyor belting sells to the mining and other industries. Advanced Engineered Products which manufactures a wide array of products that are all critical to the end product's performance whilst representing a low percentage of the end product's cost.	Industrial Engineering	2,498	3.4	1,667
Oxford Instruments Oxford Instruments designs and manufactures very high technology tools and systems that are used in both industry and for research. The products are used for either analysis or the manipulation of matter at the nanoscopic level.	Electronic & Electrical Equipment	2,488	3.4	2,610
Bellway Bellway is a UK house builder. Management have shown themselves to be both cautious and astute and have managed the balance sheet in advance of deteriorating conditions. With an increasing proportion of their houses being built on land that has been purchased post the credit crunch there is a natural expansion in their margins waiting to flow through to profitability.	Household Goods & Home Construction	2,208	3.0	1,303
Fuller Smith & Turner 'A' Fullers is a brewer and pub and hotel operator. They have an enviable track record of delivering growth in profits. They retain the strongest balance sheet amongst their peer group which has left them able to capitalise on some of the disposals their competitors have been forced to make. Meanwhile there is significant hidden value in their freehold assets.	Travel & Leisure	2,186	3.0	1,867
Morgan Sindall Morgan Sindall is a construction and fit out business. The company has four divisions. In construction and infrastructure they occupy a strong position with the utility companies. Fit Out where they are the market leader in the London market. In affordable housing they are able to utilise their construction expertise to deliver the mixed use schemes that local authorities want. Their regeneration business has been very successful in winning a number of very large projects that will provide revenue streams for many years.	Construction & Materials	2,144	2.9	2,142
Helical Bar Helical Bar is a property development and investment group. The business has a diversified exposure to the economy, with assets in London offices, out of town retail, retirement villages and change of use. The management team have a very solid track record of operating through the cycle.	Real Estate Investment & Services	1,950	2.7	2,144
Ultra Electronic Ultra Electronic is a manufacturer of electronic products for the defence industry. The main products are for submarine detection, missile launch systems and battlespace technology.	Aerospace & Defence	1,942	2.6	2,270
Dechra Pharmaceuticals Dechra develops, manufactures and distributes veterinary pharmaceuticals. They focus on the companion animal market. Veterinary pharmaceuticals are much less susceptible to generic competition than human drugs. The company has excellent opportunities to expand further into both Europe and the US.	Pharmaceuticals & Biotechnology	1,942	2.6	1,935
Restaurant Group Restaurant Group operate the Frankie and Benny's, Chiquitos, Garfunkels and Brunnin and Price chains of restaurants. Their sites are predominately away from the High Street which means that they are less exposed to competition than many other operators. They also operate in airports both land side and airside. This capability confers substantial barriers to entry.	Travel & Leisure	1,893	2.6	1,781
Ten largest investments		**22,286**	**30.3**	

Investment Portfolio – Other Investments

As at 31 October 2011

Company	Sector classification	Value of holding 2011 £'000	Total assets %	Value of holding 2010 £'000
Wilmington Group	Media	1,791	2.4	2,347
McBride	Household Goods & Home Construction	1,782	2.4	1,930
Interserve	Support Services	1,726	2.4	776
Victrex	Chemicals	1,715	2.3	1,394
Chemring Group	Aerospace & Defence	1,678	2.3	1,739
Greggs	Food & Drug Retailers	1,635	2.2	1,654
Weir Group	Industrial Engineering	1,612	2.2	2,197
Euromoney Institutional Investor	Media	1,546	2.1	–
XP Power	Electronic & Electrical Equipment	1,514	2.1	3,089
Rathbone Brothers	Financial Services	1,507	2.1	–
Twenty largest investments		38,792	52.8	
Berendsen	Support Services	1,408	1.9	–
Barr (AG)	Beverages	1,404	1.9	1,126
Menzies (John)	Support Services	1,375	1.9	1,625
Aveva Group	Software & Computer Services	1,367	1.9	1,288
Halfords Group	General Retailers	1,338	1.8	1,131
TT Electronics	Electronic & Electrical Equipment	1,338	1.8	1,361
Huntsworth	Media	1,329	1.8	1,489
Elementis	Chemicals	1,296	1.8	–
Dignity	General Retailers	1,225	1.7	985
Mothercare	General Retailers	1,208	1.6	2,606
Thirty largest investments		52,080	70.9	
Bloomsbury Publishing	Media	1,174	1.6	1,615
Robert Walters	Support Services	1,152	1.6	1,504
Acal	Support Services	1,130	1.5	1,088
Anite	Software & Computer Services	1,096	1.5	838
Hornby	Leisure Goods	1,089	1.5	1,058
Chesnara	Life Insurance	1,081	1.5	1,065
Keller Group	Construction & Materials	1,069	1.5	1,487
Intermediate Capital Group	Financial Services	1,066	1.5	1,407
Fisher (James) & Sons	Industrial Transportation	1,062	1.4	841
Savills	Real Estate Investment & Services	1,058	1.4	1,124
Forty largest investments		63,057	85.9	
Umeco	Aerospace & Defence	1,018	1.4	1,715
Headlam Group	Household Goods & Home Construction	946	1.3	1,226
Numis Corp	Financial Services	823	1.1	825
Zotefoams	Chemicals	599	0.8	1,429
Total investments		**66,443**	**90.5**	
Net current assets[A]		**7,003**	**9.5**	
Total assets		**73,446**	**100.0**	

[A] Excludes bank loan of £5,000,000 (2010 – £5,000,000).

Sector Analysis

As at 31 October 2011

		FTSE SmallCap Index (ex IC's) weighting %	Portfolio weightings 31 October 2011 %	31 October 2010 %
Basic Materials	Chemicals	0.89	5.43	3.90
	Industrial Metals	0.43	–	–
	Mining	0.82	–	–
		2.14	**5.43**	**3.90**
Consumer Goods	Automobiles & Parts	0.29	–	–
	Beverages	–	2.11	1.56
	Food Producers	2.67	–	–
	Household Goods & Home Construction	2.58	7.43	6.16
	Leisure Goods	1.09	1.64	1.46
		6.63	**11.18**	**9.18**
Consumer Services	Food & Drug Retailers	–	2.46	2.28
	General Retailers	4.01	5.67	6.52
	Media	6.05	8.79	7.53
	Travel & Leisure	6.79	6.14	7.44
		16.85	**23.06**	**23.77**
Financials	Financial Services	4.82	5.11	3.08
	Life Insurance	1.11	1.63	1.47
	Non-life Insurance	1.51	–	1.55
	Real Estate Investment & Services	12.81	4.53	4.51
	Real Estate Investment Trusts	4.64	–	–
		24.89	**11.27**	**10.61**
Health Care	Health Care Equipment & Services	1.28	–	–
	Pharmaceuticals & Biotechnology	2.84	2.92	2.67
		4.12	**2.92**	**2.67**
Industrials	Aerospace & Defence	1.17	6.98	7.91
	Construction & Materials	4.93	4.84	5.73
	Electronic & Electrical Equipment	6.05	8.04	11.15
	General Industrials	0.42	4.57	3.52
	Industrial Engineering	3.48	6.18	5.34
	Industrial Transportation	3.29	1.60	2.78
	Support Services	15.41	10.22	7.82
		34.75	**42.43**	**44.25**
Oil & Gas	Alternative Energy	0.08	–	–
	Oil & Gas Producers	2.94	–	–
		3.02	–	–
Technology	Software & Computer Services	5.96	3.71	5.62
	Technology Hardware & Equipment	1.64	–	–
		7.60	**3.71**	**5.62**
	Total equities	**100.00**	**100.00**	**100.00**

Information about the Manager

Dunedin Smaller Companies Investment Trust PLC

The Company's Manager is Aberdeen Asset Managers Limited ("AAM"), a wholly-owned subsidiary of Aberdeen Asset Management PLC ("Aberdeen"), whose Group companies as at 31 October 2011 managed a combined £176.2 billion of funds for UK institutions, investment trusts, closed end funds, unit trusts, private clients and offshore funds. It has its headquarters in Aberdeen with principal investment offices in Bangkok, Edinburgh, Hong Kong, London, Philadelphia, Singapore and Sydney.

The Group manages over 33 investment trusts and other closed-end funds representing £7.4 billion under management.

The Senior Investment Manager

Ed Beal

Senior Investment Manager

Ed is an investment manager on the Pan European equities team. Ed manages the Company. Ed joined Edinburgh Fund Managers plc (which was subsequently taken over by Aberdeen Asset Management PLC) in 2000 from the University of Dundee's Student Association where he was president leading development and strategy.

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

The Investment Process

Philosophy and Style

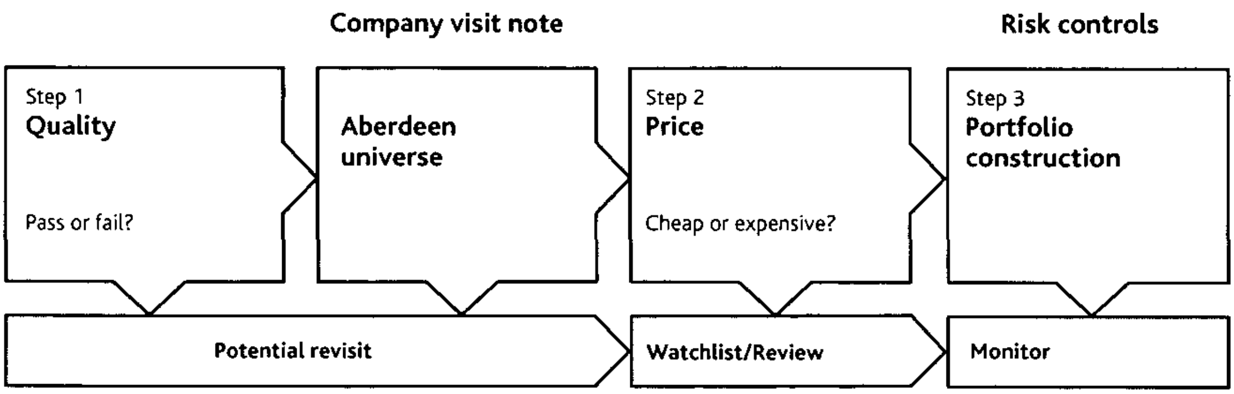
The Manager's investment philosophy is that markets are not always efficient. We (AAM) believe that superior investment returns are therefore attainable by identifying good companies cheaply, defined in terms of the fundamentals that in our opinion drive share prices over the long term. We undertake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

Risk Controls

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

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

Regional Teams



Your Board of Directors

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

The Earl of Dalhousie

Status: Independent Non-Executive Chairman
Age: 63
Length of service: 18 years, appointed a Director on 1 November 1993
Experience: formerly a director of Hambros Bank Ltd, Enskilda Securities and Capel-Cure Myers Capital Management
Last re-elected to the Board: 5 February 2009
Committee membership: Audit Committee, Management Engagement Committee and Nomination Committee
Remuneration: £22,220
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 20,000 5p Ordinary shares and 3,000 Subscription shares

T J K Barnes

Status: Independent Non-Executive Director
Age: 50
Length of service: 8 years, appointed a Director on 1 December 2003
Experience: is chief executive of Dobbies Garden Centres and a former investment banker
Last re-elected to the Board: 4 February 2010
Committee membership: Audit Committee, Management Engagement Committee and Nomination Committee
Remuneration: £16,666
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 17,825 5p Ordinary shares and 1,923 Subscription shares

R M Entwistle

Status: Independent Non-Executive Director and Senior Independent Director
Age: 67
Length of service: 13 years, appointed a Director on 18 December 1998
Experience: formerly chairman of Adam & Company and is a Fellow of the Chartered Institute of Bankers. He is also Chairman of Scoban PLC, a director of I & H Brown Ltd and Chairman of the Scottish Civic Trust and a Trustee of the Victims Support Campaign Board.
Last re-elected to the Board: 23 February 2011
Committee membership: Audit Committee, Management Engagement Committee and Chairman of Nomination Committee
Remuneration: £16,666
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 40,000 5p Ordinary shares and 4,500 Subscription shares

N M Yarrow

Status: Independent Non-Executive Director
Age: 51
Length of service: 13 years, appointed a Director on 21 May 1998
Experience: is a former director of NVM Private Equity, a member of the Institute of Chartered Accountants of Scotland and Trustee for Project Scotland and Scottish Civic Trust
Last re-elected to the Board: 4 February 2010
Committee membership: Chairman of the Audit Committee and Management Engagement Committee and member of the Nomination Committee
Remuneration: £19,443
All other public company directorships: None
Employment by the Manager: None
Other connections with Company or Manager: None
Shared Directorships with any other Company Directors: None
Shareholding in Company: 35,000 5p Ordinary shares and 3,000 Subscription shares

Directors' Report

Business Review

A review of the Company's activities is given in the Corporate Summary on pages 2 and 3, the Chairman's Statement on pages 4 and 5 and the Manager's Review on pages 6 to 9. This includes a review of the business of the Company and its principal activities, likely future developments of the business, the recommended dividend and details of acquisition of its own shares by the Company. The Board has adopted a matrix of the key risks that affect its business. The major financial risks associated with the Company are detailed in note 18 to the Financial Statements. Other risks include:

(i) Performance risk: The performance of the portfolio relative to the benchmark (FTSE SmallCap Index (ex Investment Companies)) and the underlying stock weightings in the portfolio against their index weightings are monitored closely by the Board.
(ii) Discount volatility: The Company's shares can trade at a discount to its underlying net asset value. The Company operates a share buyback programme, and any shares repurchased may be either cancelled or held in treasury. The programme is reviewed on an ongoing basis.
(iii) Regulatory risk: The Company operates in a complex regulatory environment and faces a number of regulatory risks. Breaches of regulations, such as Sections 1158-1159 of the Corporation Tax Act 2010, the UKLA Listing Rules and the Companies Act, could lead to a number of detrimental outcomes and reputational damage. The Audit Committee monitors compliance with regulations by reviewing internal control reports from the Manager.

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

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

A record of these measures is disclosed on page 10.

The current Directors, as shown in the table opposite, who held office throughout the year under review, were the only Directors who served during the year.

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

Results and Dividends

The Directors recommend that a final dividend of 2.90p (2010 – 2.75p) is paid on 9 February 2012 to shareholders on the register on 13 January 2012. The ex-dividend date is 11 January 2012.

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's registration number is SC014692.

The Company carries on business as an investment trust for the purpose of Sections 1158-1159 of the Corporation Tax Act 2010 and has been approved as such by HM Revenue & Customs for the period ended 31 October 2010 although approval for that year would be subject to review were there to be any enquiry under the Corporate Tax Self Assessment regime. The Company has subsequently conducted its affairs so as to enable it to continue to seek such approval.

The affairs of the Company were conducted in such a way as to satisfy the requirements as a qualifying security for Individual Savings Accounts. The Directors intend that the Company will continue to conduct its affairs in this manner in the future.

Directors

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

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

The Directors at 31 October 2011 and 1 November 2010 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table below.

	31 Oct 2011		31 Oct 2010	
	Ord 5p	Sub shares	Ord 5p	Sub shares
The Earl of Dalhousie	20,000	3,000	20,000	3,000
T J K Barnes	17,825	1,923	17,825	1,923
R M Entwistle	40,000	4,500	40,000	4,500
N M Yarrow	35,000	3,000	35,000	3,000

The above interests were unchanged as at the date of this report. No contract or arrangement subsisted during the period in which any of the Directors was materially interested. No Director had a service contract with the Company.

Directors' & Officers' Liability Insurance

The Company maintains insurance in respect of Directors' and Officers' liabilities in relation to their acts on behalf of the Company. Each Director of the Company shall be entitled to be indemnified out of the assets of the Company to the extent permitted by law against all costs, charges, losses, expenses and liabilities incurred by him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office. These rights are included in the Articles of Association of the Company and the Company has granted indemnities to the Directors on this basis.

Corporate Governance

The Statement of Corporate Governance which forms part of the Directors' Report is shown on pages 21 to 24.

Going Concern

The Company's assets consist substantially of equity shares in companies listed on the London Stock Exchange and in most circumstances are realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. Borrowings of £5 million are committed to the Company until 26 November 2014. The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and, for the above reasons, they continue to adopt the going concern basis in preparing the accounts.

Accountability and Audit

The respective responsibilities of the Directors and the auditor in connection with the financial statements appear on pages 25 and 27.

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

Auditor

The Company's auditor, KPMG Audit Plc, is willing to continue in office, and resolutions will be proposed at the AGM to reappoint them and to authorise the Directors to fix its remuneration. The Directors have reviewed the level of non-audit services provided by the auditor during the year, together with the auditor's procedures in connection with the provision of such services, and remain satisfied that KPMG Audit Plc's objectivity and independence is being safeguarded.

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

Issue of New Shares and Treasury Shares

Under resolution 7 it is proposed that, in line with common practice, the Directors be authorised to allot up to £789,615 of shares and to grant relevant rights (as defined in that resolution) in relation to shares in the Company (equivalent to 15,792,296 ordinary shares of 5p, representing approximately 33% of the Company's issued share capital) without further reference to the Company in general meeting for a period ending at the conclusion of the AGM in 2013. The Directors have no current intention to utilise this authority.

Resolution 8 will give the Directors authority to sell or transfer ordinary shares out of treasury for cash up to an aggregate nominal value of £119,639 (representing approximately 5% of the Company's issued share capital) after taking account of any shares issued pursuant to resolution 9. The Directors will be authorised to sell or transfer such shares at a price below the then prevailing net asset value of the shares provided always that the shares will only be sold or transferred out of treasury at prices (a) in excess of the average price at which the shares were bought into treasury; and (b) at a narrower discount to the net asset value than the average level of discount the shares were purchased at. Any dilution to the net asset value resulting from (b) above shall be restricted to no more than 0.5% in any financial year. Resolution 8 is conditional on the passing of resolution 9.

The authority conferred by this resolution will give the Directors additional flexibility going forward, and the Directors consider that it will be in the interest of the Company that such authority be available. Such authority will only be implemented when, in the view of the Directors, to do so will be for the benefit of all shareholders. This authority will lapse at the conclusion of the AGM to be held in 2013.

Under Section 561 of the Companies Act 2006, where it is proposed to issue equity securities for cash, or to sell the shares out of treasury, they must first be offered to existing shareholders in proportion to their holdings. In some circumstances, it is beneficial to allot such securities for cash without first offering them in this way.

The Directors will therefore propose a special resolution (resolution 9) at the AGM which, if passed, will allow them to allot equity securities for cash up to an aggregate nominal value of £119,639 as if Section 561(1) did not apply. This authority will lapse (unless renewed) at the conclusion of the AGM in 2013. New Ordinary shares would not be issued at a price that is less than the prevailing net asset value.

Share Repurchases

The Directors also propose to seek renewed approval at the forthcoming AGM of the Company to purchase its own Ordinary and Subscription shares in the market (resolutions 10 and 11). The maximum aggregate number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued Ordinary share capital of the Company, and the maximum aggregate number of Subscription shares which may be purchased pursuant to the authority shall be 14.99% of the Subscription shares in issue as at the date of the passing of the resolution. The minimum price which may be paid for an Ordinary share and Subscription share shall be 5p and 0.001p respectively (being the nominal value). The maximum price (exclusive of expenses) which may be paid for the shares shall be the higher of: a) 5% above the average of the market values of the Ordinary shares or Subscription shares (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and b) the higher of the price of the last independent trade and the highest current independent bid on the main market for the Ordinary shares or Subscription shares (as appropriate).

The authority to buy back Ordinary shares, if conferred, will only be exercised if to do so would result in an increase in net asset value per Ordinary share for the remaining shareholders and if it is in the best interests of shareholders generally. If the Directors exercise the authority conferred by resolution 10, the Company will have the option of either holding the shares in treasury or of cancelling the shares and will decide at the time of purchase which option to pursue. Purchases of Subscription shares will only be made through the market at prices where the Directors believe such purchases will enhance Ordinary shareholder value.

This authority will last until the conclusion of the AGM of the Company to be held in 2013 (unless previously revoked, varied or renewed by the Company in general meeting).

Any use by the Company of the authority to purchase shares will be by way of either a single purchase or a series of purchases, when market conditions allow.

Recommendation

Your Board considers the resolutions to be proposed at the AGM to be in the best interests of the Company and its members as a whole. Accordingly, your Board unanimously recommends that shareholders should vote in favour of the resolutions to be proposed at the AGM, as they intend to do so in respect of their own beneficial holdings, amounting to112,825 Ordinary shares.

Additional Information

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

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

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

The rules governing the appointment of Directors are set out in the Statement of Corporate Governance on pages 21 to 22. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

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

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

By order of the Board
Aberdeen Asset Management PLC
Secretary, Edinburgh
14 December 2011

Statement of Corporate Governance

Corporate Governance

This Statement of Corporate Governance forms part of the Directors' Report which is shown on pages 18 to 20.

Introduction

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles identified in the UK Corporate Governance Code ("UK Code") which is available on the Financial Reporting Council's website: www.frc.org.uk. The Board confirms that the Company has complied throughout the accounting period with the relevant provisions contained within the UK Code.

Additionally, as the Company is a member of the AIC, the Board has taken account of the recommendations of the AIC's Code of Corporate Governance dated October 2010 (the "AIC Code") which seeks to codify best practice of particular relevance to investment trusts. The AIC Code is available on the AIC's website: www.theaic.co.uk

Directors

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship with the Manager. Each Director has the requisite high level and range of business and financial experience which enables the Board to provide clear and effective leadership and proper stewardship of the Company. The Senior Independent Director is Mr Entwistle. The Board meets at least four times each year, and more frequently when business needs require. The Board has a schedule of matters reserved to it for decision, and the requirement for Board approval on these matters is communicated directly to the senior staff of the Manager. Such matters include strategy, borrowings, treasury and dividend policy. Full and timely information is provided to the Board to enable the Directors to function effectively and to discharge their responsibilities. The Board also reviews the financial statements, performance and revenue budgets.

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

The Board has in place the necessary procedures (using questionnaires and discussion) 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.

The Board has assessed the independence of the Directors against the criteria set out in the Codes, and has concluded that they are all independent of the Manager and free of any relationship which could materially interfere with the exercise of their independent judgement on issues of strategy, performance, resources and standards of conduct. 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. In the case of The Earl of Dalhousie, Mr Entwistle and Mr Yarrow who have been directors since 1993, 1998 and 1998 respectively, the Board takes the view that their independence has not been compromised by their length of service and that experience as well as a long-term perspective can add significant value to a well-balanced investment trust company board comprising of non-executive directors. In considering their independence, the Directors considered a number of factors including their experience, integrity and judgement of character. The Directors also recognised that the Directors have no connection with the Manager, are not professional advisers who have provided services to the Manager or the Board, do not serve on any other board of a company managed by the Manager or serve as directors on companies with any of the other Company's directors. For these reasons the Board (excluding the individual Directors) believes the Directors remain independent notwithstanding their length of service and have no hesitation in recommending the re-election of The Earl of Dalhousie at the next AGM.

Directors have attended Board and Committee meetings during the year ended 31 October 2011 as follows (with their eligibility to attend the relevant meeting in brackets):

Director	Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings*
The Earl of Dalhousie (Chairman)	4 (5)	2 (2)	1 (1)
T J K Barnes	4 (5)	2 (2)	1 (1)
R M Entwistle	5 (5)	2 (2)	1 (1)
N M Yarrow	5 (5)	2 (2)	1 (1)

*held post the year end

Between meetings the Board maintains regular contact with the Manager.

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

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

There is a formal process for the consideration and authorisation by the Board of Directors' reported actual and potential conflicts of interest, a full analysis of the Directors' appointments and interests having been considered at each Board meeting. In accordance with the Company's Articles of Association and relevant legislation, each Director abstains from approval of their own position. The Board will continue to monitor and review potential conflicts of interests on a regular basis.

The Bribery Act 2010 became effective on 1 July 2011. The Company has a policy of conducting its business in an honest and ethical manner. The Company takes a zero tolerance approach to bribery and corruption and has procedures in place that are proportionate to the Company's circumstances to prevent them. The Manager also adopts a zero tolerance approach and has its own detailed policy and procedures in place to prevent bribery and corruption.

Internal Controls and Risk Management

The Board is ultimately responsible for the Company's system of internal control and risk management and for reviewing its effectiveness. The Board confirms that as at 31 October 2011 there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks, that it has been in place for the year ended 31 October 2011 and up to the date of approval of the Annual Report and Accounts, that it is regularly reviewed by the Board and accords with the internal control guidance for directors in the UK Code.

The Board has reviewed the effectiveness of the Manager's system of internal control and risk management. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The significant risks faced by the Company are as follows:
- financial;
- operational; and
- compliance.

The key components designed to provide effective internal control are outlined below:
- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- as a matter of course the Manager's compliance department continually reviews the Manager's operations;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers;
- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Manager, has decided to place reliance on the Manager's systems and internal audit procedures; and
- at its December 2011 meeting, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 October 2011 by considering documentation from the Manager, including the internal audit and compliance functions and taking account of events since 31 October 2011. The results of the assessment were then reported to the Board at the next Board meeting.

The system of internal control and risk management is designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the system of internal control and risk is 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 a number of Committees as set out below. Copies of their terms of reference, which clearly define the responsibilities and duties of each Committee, are available upon request from the Company and are on the Company's website.

Audit Committee

The Directors have appointed an Audit Committee which meets not less than twice per year. The Audit Committee operates within clearly defined written terms of reference and comprises the entire Board with Mr Yarrow acting as Chairman.

The Directors have satisfied themselves that at least one of the Committee's members has recent and relevant financial experience.

In summary, the Audit Committee's main functions are:
- to review and monitor the internal control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function
- to monitor the integrity of the interim and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager;
- to meet, as required, with the auditor to review its proposed audit programme of work and the findings of the auditor. The Committee also uses this as an opportunity to assess the effectiveness of the audit process;
- to develop and implement policy on the engagement of the auditor to supply non-audit services;
- to review the arrangements in place within AAM whereby AAM staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters ("whistle blowing" arrangements);
- to make recommendations to the Board in relation to the appointment of the auditor and to approve the remuneration and terms of engagement of the auditor; and
- to monitor and review annually the auditor's independence, objectivity, effectiveness, resources and qualification.

The non-audit fee of £5,000 paid to the auditor during the year was for the interim review. Shareholders have the opportunity at each AGM to vote on the appointment of the auditor for the forthcoming year.

Management Engagement Committee

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

Nomination Committee

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

Relations with Shareholders

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

The notice of the AGM 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 AGM.

Substantial Interests

At 14 December 2011, being the nearest practicable date to the signing of this report, the following were registered or had notified the Company as being interested in 3% or more of the Company's Ordinary share capital:

Name of shareholder	Number of ordinary shares held	% of ordinary shares held
Aberdeen Investment Trust Savings Plans[A]	12,147,529	25.4
Aberdeen Asset Managers[A]	9,901,757	20.7
Derbyshire County Council	3,400,000	7.1
DC Thomson & Company Ltd	2,030,000	4.2
Legal & General Group Plc	1,447,500	3.0

[A] Non-beneficial interests

Share Capital and Voting Rights

The Company did not buy back any shares into treasury or for cancellation during the year ended 31 October 2011 (2010: nil).

The total number of ordinary shares of 5p of the Company in issue at 31 October 2011 was 47,855,443 with each share holding one voting right. There were also 8,526,157 Subscription shares of 0.001p, with no voting rights, in issue as at the same date.

During the year, shareholders have exercised their right to convert 1,091 Subscription shares into Ordinary shares.

Each shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Proxy Voting as an Institutional Shareholder

Responsibility for actively monitoring the activities of investee companies has been delegated by the Board to the Manager. The Manager's Corporate Governance Principles can be found on the Manager's website, at http://www.aberdeen-asset.com/aam.nsf/AboutUs/governancestewardship. This document sets out the Manager's framework on corporate governance, proxy voting and shareholder engagement in relation to the companies in which the Manager has invested or is considering investing. The Manager's Statement of Compliance with the UK Stewardship Code also appears on the Manager's website, at the web address given above.

The Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by the investee company, and for attending company meetings. The Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights. The Manager's policy is to vote on all shares held by the Company and the Board receives from the Manager regular reports on the exercise by the Manager of the Company's voting rights and discusses with the Manager any issues arising. It is the Board's view that having an active voting policy and a process for the monitoring by the Board of the Manager's exercise of those votes, especially in relation to controversial issues, aids the efficient exercise of the Company's governance responsibilities.

Corporate Governance and Socially Responsible Investment Policy

The Board is aware of its duty to act in the interests of the Company. The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner. The Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments. The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of Corporate Governance. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area. The Company's ultimate objective is to deliver superior long-term returns for our shareholders which we believe will be produced on a sustainable basis by investments in companies which adhere to best practice in the area of Corporate Governance. Accordingly, the Manager will seek to favour companies which pursue best practice in the above area.

Statement of Directors' Responsibilities

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

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

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

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

We confirm that to the best of our knowledge:

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

For and on behalf of the Board of Dunedin Smaller Companies Investment Trust PLC

Norman Yarrow
Chairman of the Audit Committee
14 December 2011

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming AGM. The law requires your Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on page 27.

Remuneration Committee

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

Unaudited Information

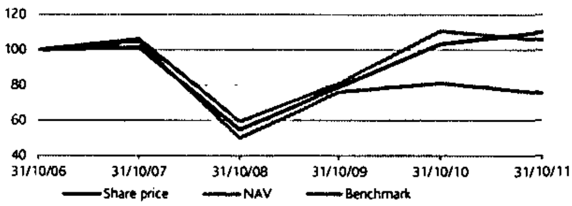
The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £100,000 per annum. Subject to this overall limit, the Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective. It is intended that this policy will continue for the year to 31 October 2012 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 to £22,980, £20,110 and £17,240 for the Chairman, Audit Committee Chairman and remaining Directors respectively effective 1 July 2011.

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 AGM after their appointment, and at least every three years after that. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

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

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

The graph opposite shows the share price and NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the FTSE SmallCap Index (excluding Investment Companies) for the five year period to 31 October 2011 (rebased to 100 at 31 October 2006). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



Audited Information

Directors' Emoluments

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

Director	2011 £	2010 £
The Earl of Dalhousie	22,220	21,146
T J K Barnes	16,666	15,860
R M Entwistle	16,666	15,860
N M Yarrow	19,443	18,503
Total	**74,995**	**71,369**

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 14 December 2011 and signed on its behalf by:

Dalhousie

The Earl of Dalhousie
Chairman
14 December 2011

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

We have audited the financial statements of Dunedin Smaller Companies Investment Trust PLC for the period ended 31 October 2011 set out on pages 28 to 44. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code.

Gareth Horner

Gareth Horner (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edinburgh

14 December 2011

Income Statement

	Notes	Year ended 31 October 2011 Revenue return £'000	Capital return £'000	Total return £'000	Year ended 31 October 2010 Revenue return £'000	Capital return £'000	Total return £'000
(Losses)/gains on investments	9	–	(5,011)	(5,011)	–	18,248	18,248
Income	2	3,056	–	3,056	2,248	–	2,248
Investment management fee	3	(80)	(569)	(649)	(69)	(475)	(544)
VAT recovered on investment management fees	3	–	–	–	155	315	470
Administrative expenses	4	(389)	–	(389)	(366)	–	(366)
Net return before finance costs and taxation		2,587	(5,580)	(2,993)	1,968	18,088	20,056
Finance costs	5	(31)	(91)	(122)	(29)	(88)	(117)
Return on ordinary activities before taxation		2,556	(5,671)	(3,115)	1,939	18,000	19,939
Taxation	6	–	–	–	–	–	–
Return on ordinary activities after taxation		**2,556**	**(5,671)**	**(3,115)**	**1,939**	**18,000**	**19,939**
Return per Ordinary share (pence)	8	**5.34**	**(11.85)**	**(6.51)**	**4.05**	**37.61**	**41.66**

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

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

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

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

Balance Sheet

	Notes	As at 31 October 2011 £'000	As at 31 October 2010 £'000
Non-current assets			
Investments at fair value through profit or loss	9	66,443	72,401
Current assets			
Debtors and prepayments	10	241	792
UK Treasury Bills	16	1,000	–
Cash and short term deposits	16	5,940	5,888
		7,181	6,680
Creditors: amounts falling due within one year			
Bank loan	11,16	(5,000)	(5,000)
Other creditors	11	(178)	(272)
		(5,178)	(5,272)
Net current assets		2,003	1,408
Net assets		**68,446**	**73,809**
Capital and reserves			
Called-up share capital	12	2,393	2,393
Share premium account		28	27
Capital redemption reserve		2,233	2,233
Capital reserve	13	59,490	65,161
Revenue reserve		4,302	3,995
Equity shareholders' funds		**68,446**	**73,809**
Net asset value per Ordinary share (pence)	17	**143.03**	**154.24**

The financial statements were approved by the Board of Directors and authorised for issue on 14 December 2011 and were signed on its behalf by:

Dalhousie

The Earl of Dalhousie

Director

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

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 October 2011

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve[A] £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2010		2,393	27	2,233	65,161	3,995	73,809
Exercise of Subscription shares		–	1	–	–	–	1
Return on ordinary activities after taxation		–	–	–	(5,671)	2,556	(3,115)
Dividends paid	7	–	–	–	–	(2,249)	(2,249)
Balance at 31 October 2011		**2,393**	**28**	**2,233**	**59,490**	**4,302**	**68,446**

For the year ended 31 October 2010

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve[A] £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2009		2,393	24	2,233	47,161	4,209	56,020
Purchase of own shares		–	3	–	–	–	3
Return on ordinary activities after taxation		–	–	–	18,000	1,939	19,939
Dividends paid	7	–	–	–	–	(2,153)	(2,153)
Balance at 31 October 2010		**2,393**	**27**	**2,233**	**65,161**	**3,995**	**73,809**

[A] See note 13 for further details on the capital reserve.

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

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

Cash Flow Statement

	Notes	Year ended 31 October 2011 £'000	Year ended 31 October 2011 £'000	Year ended 31 October 2010 £'000	Year ended 31 October 2010 £'000
Net cash inflow from operating activities	14		2,207		2,179
Servicing of finance					
Interest paid			(143)		(96)
Financial investment					
Purchases of investments		(15,917)		(16,418)	
Sales of investments		17,153		15,325	
Net cash inflow/(outflow) from financial investment			1,236		(1,093)
Equity dividends paid	7		(2,249)		(2,153)
Net cash inflow/(outflow) before use of liquid resources and financing			1,051		(1,163)
Net cash outflow from management of liquid resources			(1,000)		–
Net cash inflow/(outflow) before financing			51		(1,163)
Financing					
Repayment of bank loan		(5,000)		(3,000)	
Bank loan drawn down		5,000		–	
Exercise of Subscription shares		1		3	
Net cash inflow/(outflow) from financing			1		(2,997)
Increase/(decrease) in cash	15		**52**		**(4,160)**

Reconciliation of net cash flow to movements in net funds

	Notes	2011 £'000	2010 £'000
Increase/(decrease) in cash as above		52	(4,160)
Net change in liquid resources		1,000	–
Change in net funds resulting from cash flows		1,052	(4,160)
Repayment of bank loan		5,000	3,000
Bank loan drawn down		(5,000)	
Movement in net funds in the year		1,052	(1,160)
Opening net funds		888	2,048
Closing net funds	16	**1,940**	**888**

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

Notes to the Financial Statements For the year ended 31 October 2011

1. Accounting policies

(a) Basis of preparation and going concern

The financial statements have been prepared in accordance with the applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in January 2009).

The financial statements have been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis. The Directors believe this is appropriate for the reasons outlined in the Directors' Report on page 19.

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

(b) Revenue, expenses and interest payable

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

Expenses are charged to capital when they are incurred in connection with the maintenance or enhancement of the value of investments. In this respect, the investment management fee and relevant finance costs are allocated between revenue and capital in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively (see notes 3 and 5). Performance fees are allocated wholly to capital.

(c) Investments

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

(d) Dividends payable

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

(e) Capital reserve

Gains and losses on the sale of investments and changes in fair values of investments held are transferred to the capital reserve. The capital element of the management fee and relevant finance costs are charged to this reserve. Any associated tax relief is also credited to this reserve. Performance fees are allocated wholly to capital.

(f) Taxation

Deferred taxation is provided on all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the Balance Sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

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

2. Income	2011 £'000	2010 £'000
Income from investments[A]		
UK dividend income	2,567	2,116
Overseas dividend income	70	97
UK stock dividend income	89	–
	2,726	2,213
Other income[B]		
Interest on Treasury Bills	1	–
Deposit interest	28	35
Interest on VAT recovered	293	–
Underwriting commission	8	–
	330	35
Total income	**3,056**	**2,248**

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

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

		2011			2010	
	Revenue	Capital	Total	Revenue	Capital	Total
3. Investment management fee	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	80	240	320	69	207	276
Performance fee	–	329	329	–	268	268
	80	**569**	**649**	**69**	**475**	**544**

The management fee paid to the Manager is calculated at 0.4% per annum of the gross assets of the Company after deducting current liabilities and excluding commonly managed funds ('adjusted gross assets').

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

The management agreement between the Company and the Manager is 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 allocated wholly to capital.

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

The VAT charged on the investment management fees has been refunded in stages. An amount of £580,000 relating to the period 1 January 2004 to 31 October 2007 was recognised in the financial statements for the year ended 31 October 2008. A further amount of £470,000 was recognised in the financial statements for the year ended 31 October 2010 (including an amount of £288,000 received post year end on 4 November 2010) and represented the VAT charged on investment management fees for the period 1 January 1990 to 4 December 1996 and from 1 January 2001 to 31 December 2003. The refunds have been allocated to revenue and capital in line with the accounting policy of the Company for the periods in which the VAT was charged.

In addition, an amount of £293,000 in respect of interest on the above settled claims has been recognised in the year to 31 October 2011 and has been credited wholly to revenue.

4. Administrative expenses	2011 £'000	2010 £'000
Directors' fees	75	71
Auditors' remuneration :		
– fees payable to the Company's auditor :		
– for the audit of the annual accounts	15	14
– fees payable to the Company's auditor and its associates for other services:		
– interim review	5	4
Secretarial fee	73	70
Marketing	30	22
Share Plan costs	36	30
Registrar's fees	16	16
Advisory fees	31	29
Legal fees	–	3
Irrecoverable VAT	41	35
Other expenses	67	72
	389	**366**

The secretarial fee of £73,000 (2010 – £70,000) was paid to the Manager.

Marketing expenses of £30,000 (2010 – £22,000) were paid to the Manager in respect of marketing and promotion of the Company.

5. Finance costs	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Financial liabilities not at fair value through profit or loss:						
Bank loan interest	**31**	**91**	**122**	**29**	**88**	**117**

6. Taxation

There is no liability to corporation tax for the year (2010 – £nil).

The corporation tax rate was 28% until 31 March 2011 and 26% from 1 April 2011 giving an effective rate of 26.83%.

Factors affecting tax charge for the year	2011 £'000	2010 £'000
Return on ordinary activities before taxation	(3,115)	19,939
Tax thereon at 26.83% (2010 – 28%)	(836)	5,583
Effects of:		
Non taxable UK dividends	(689)	(592)
Non taxable overseas dividends	(19)	(27)
Non taxable UK stock dividends	(24)	
Gains on investments not taxable	1,344	(5,109)
Excess expenses not utilised	224	145
	–	–

At the year end, the Company had surplus management expenses and loan relationship losses of £26,321,000 (2010 – £25,742,000). These have been generated because such a large part of the Company's income is derived from dividends from UK companies. The Company is not expected to generate taxable income in a future period in excess of deductible expenses for that period and, accordingly, is unlikely to be able to reduce future tax liabilities by offsetting these losses.

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

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

7. Dividends

Dividends	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for 2010 – 2.75p (2009 – 2.65p)	1,316	1,268
Interim dividend for 2011 – 1.95p (2010 – 1.85p)	933	885
Dividends paid in the year	**2,249**	**2,153**

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

The table below sets out the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Sections 1158–1159 Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £2,556,000 (2010 – £1,939,000).

	2011 £'000	2010 £'000
Interim dividend paid for 2011 – 1.95p (2010 – 1.85p)	933	885
Proposed final dividend for 2011 – 2.90p (2010 – 2.75p)	1,388	1,316
	2,321	**2,201**

8. Return per Ordinary share	2011 p	2010 p
Revenue return	5.34	4.05
Capital return	(11.85)	37.61
Total return	**(6.51)**	**41.66**
Weighted average number of Ordinary shares in issue	**47,855,057**	**47,853,714**

On the basis set out in Financial Reporting Standard 22 "Earnings per Share", there is no dilutive effect on net revenue or net capital per share in either the current or prior year, arising from the exercise of the Subscription shares as detailed in note 12.

9. **Investments**	Listed in UK 2011 £'000	Listed in UK 2010 £'000
Fair value through profit or loss:		
Opening fair value	72,401	53,734
Opening fair value gains on investments held	(17,834)	(5,820)
Opening book cost	54,567	47,914
Purchases at cost	15,917	16,033
Sales – proceeds	(16,864)	(15,614)
Sales – gains on sales	3,445	6,234
Closing book cost	57,065	54,567
Closing fair value gains on investments held	9,378	17,834
Closing fair value	**66,443**	**72,401**

Gains/(losses) on investments	2011 £'000	2010 £'000
Gains on sales of equities	3,445	6,234
Movement in fair value gains on investments held	(8,456)	12,014
	(5,011)	**18,248**

Transaction costs

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

	2011 £'000	2010 £'000
Purchases	91	98
Sales	19	16
	110	**114**

10. Debtors: amounts falling due within one year	2011 £'000	2010 £'000
Amounts due from stockbrokers	–	289
Net dividends and interest receivable	233	203
VAT recoverable	–	288
Other debtors and prepayments	8	12
	241	**792**

11. Creditors: amounts falling due within one year

(a) Bank loan

On 29 November 2010 the loan facility with ING was repaid in full. On 26 November 2010 the Company entered a new one year revolving credit agreement with Scotiabank Europe for up to £5 million. At the year end the facility was drawn down in full at a rate of 2.06122%. The terms of the loan facility contain covenants that the minimum net assets of the Company are £37 million and the percentage of borrowings against net assets to be less than 25%.

On 25 November 2011 the loan facility was extended for a further 3 years and the loan was rolled over until 25 January 2012 at a rate of 2.30832%.

(b) Other creditors	2011 £'000	2010 £'000
Investment management fee	90	176
Interest payable	–	21
Sundry creditors	88	75
	178	**272**

12. Called-up share capital	2011 £'000	2010 £'000
Allotted, called-up and fully paid:		
47,855,443 Ordinary shares of 5p each (2010 – 47,854,352 Ordinary shares of 5p each)	**2,393**	**2,393**

During the year no Ordinary shares of 5p each (2010 – nil) were bought back for cancellation.

In November 2006, a bonus issue of new Subscription shares of 0.001p each was completed on the basis of 15 new Subscription shares for every 100 Ordinary shares resulting from the Ordinary share sub-division. Each Subscription share confers the right to subscribe for, or convert into, one Ordinary share on 28 February in any of the years 2007 to 2012 (inclusive) at a price of 170p per share. The Subscription shares have no voting rights or entitlement to dividends.

During the year 1,091 Subscription shares were exercised (2010 – 1,779), with 8,526,157 Subscription shares remaining in issue.

13. Capital reserve	2011 £'000	2010 £'000
At 1 November	65,161	47,161
Movement in fair value (losses)/gains	(5,011)	18,248
Investment management fees	(569)	(475)
VAT recoverable on investment management fees	–	315
Finance costs	(91)	(88)
At 31 October	**59,490**	**65,161**

The capital reserve includes investment holding gains amounting to £9,378,000 (2010 – £17,834,000), as disclosed in note 9.

14. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities	2011 £'000	2010 £'000
Net return on ordinary activities before finance costs and taxation	(2,993)	20,056
Adjustment for:		
Losses/(gains) on investments	5,011	(18,248)
Increase in accrued income	(30)	(30)
Decrease in other debtors	292	295
(Decrease)/increase in other creditors	(73)	106
Net cash inflow from operating activities	**2,207**	**2,179**

15. Analysis of changes in cash during the year	2011 £'000	2010 £'000
Opening balance	5,888	10,048
Net cash inflow/(outflow)	52	(4,160)
Closing balance	**5,940**	**5,888**

16. Analysis of changes in net funds	At 1 November 2010 £'000	Cash flow £'000	At 31 October 2011 £'000
Cash and short term deposits	5,888	52	5,940
UK Treasury Bills	–	1,000	1,000
Bank loan	(5,000)	–	(5,000)
Net funds	**888**	**1,052**	**1,940**

17. Net asset value per share	2011	2010
Equity shareholders' funds	£68,446,000	£73,809,000
Number of Ordinary shares in issue at year end	47,855,443	47,854,352
Equity shareholders' funds per share	143.03p	154.24p

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

	2011 £'000	2010 £'000
Opening net assets	73,809	56,020
Capital return for the year	(5,671)	18,000
Revenue on ordinary activities after taxation	2,556	1,939
Dividends paid in the year	(2,249)	(2,153)
Exercise of Subscription shares	1	3
Closing net assets	**68,446**	**73,809**

18. Financial instruments

The Company's objective is to attract long term private and institutional investors wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust.

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

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

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

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

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

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

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

(i) Market price risk

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

Interest rate risk

Interest rate movements may affect:

– the fair value of the investments in fixed interest rate securities;

– the level of income receivable on cash deposits;

– interest payable on the Company's variable rate borrowings.

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

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

The Company's borrowings comprise a 3 year £5 million revolving credit agreement facility. Details of borrowings as at 31 October 2011 are shown in note 11.

Interest risk profile

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

At 31 October 2011	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
UK Treasury Bills	0.04	–	–	1,000
Cash deposits	–	0.60	5,940	–
Total assets	**–**	**–**	**5,940**	**1,000**
Liabilities				
Bank loans	0.07	2.06	–	(5,000)
Total liabilities	**–**	**–**	**–**	**(5,000)**

At 31 October 2010	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets				
Cash deposits	0.17	0.63	3,888	2,000
Total assets	**–**	**–**	**3,888**	**2,000**
Liabilities				
Bank loans	0.25	2.38	–	(5,000)
Total liabilities	**–**	**–**	**–**	**(5,000)**

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

The floating rate assets consist of cash deposits on call earning interest at prevailing market rates and the fixed rate assets consist of zero coupon UK Treasury Bills with a maturity date of 14 November 2011.

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

All financial liabilities are measured at amortised cost.

Maturity profile

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

At 31 October 2011	Within 1 year £'000	More than 1 year £'000
Fixed rate		
UK Treasury Bills	1,000	–
Short term bank loan	(5,000)	–
	(4,000)	–
Floating rate		
Cash	5,940	–
Total	**1,940**	**–**

At 31 October 2010	Within 1 year £'000	More than 1 year £'000
Fixed rate		
Short term bank loan	(5,000)	–
Cash	2,000	–
	(3,000)	–
Floating rate		
Cash	3,888	–
Total	**888**	**–**

Interest rate sensitivity

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

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

– profit for the year ended 31 October 2011 would increase/decrease by £59,000 (2010 – increase/decrease by £39,000). This is mainly attributable to the Company's exposure to interest rate on its floating rate cash balances.

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

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

Other price risk

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

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

Other price risk sensitivity

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the return attributable to Ordinary shareholders for the year ended 31 October 2011 would have increased/decreased by £6,664,000 (2010 – £7,240,000). This is based on the Company's equity portfolio at each year end.

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

(ii) Liquidity risk

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

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

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions, and reviews these on a regular basis. Borrowings comprise a revolving credit agreement facility. At the year end the Company had borrowings of £5 million and this amount is reviewed on an ongoing basis. Details of borrowings at 31 October 2011 are shown in note 11.

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

(iii) Credit risk

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

The risk is managed as follows:

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

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

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

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

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

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

Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 October 2011 was as follows:

	2011 Balance Sheet £'000	Maximum exposure £'000	2010 Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Securities at fair value through profit or loss	66,443	66,443	72,401	72,401
Current assets				
Trades and other receivables	8	8	589	589
Accrued income	233	233	203	203
UK Treasury Bills	1,000	1,000	–	–
Cash and cash equivalents	5,940	5,940	5,888	5,888
	73,624	**73,624**	**79,081**	**79,081**

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

Fair values of financial assets and financial liabilities

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

19. Fair value hierarchy

The Company adopted the amendments to FRS 29 'Financial Instruments: Disclosures' effective from 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the Balance Sheet are grouped into the fair value hierarchy as follows:

31 October 2011	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	66,443	–	–	66,443
Net fair value		**66,443**	–	–	**66,443**

31 October 2010	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	72,401	–	–	72,401
Net fair value		**72,401**	**–**	**–**	**72,401**

a) Quoted equities

The fair value of the Company's investments in quoted equities have been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Fair Value Level 1 are actively traded on recognised stock exchanges.

20. Capital management policies and procedures

The Company's capital management objectives are:

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

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

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

Marketing Strategy

Dunedin Smaller Companies Investment Trust PLC contributes to the marketing programme run by Aberdeen Asset Managers Limited ("AAM") on behalf of a number of investment trusts under its management. Under this agreement the Company's contribution is matched by AAM. This contribution is reviewed annually.

The purpose of the programme is to communicate effectively with existing shareholders and attract new shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares. AAM's experience has also shown that well-targeted marketing of the Company's investment merits through packaged products, whether singly, or in conjunction with other trusts run by AAM, can be a cost-effective way of gaining new investors.

These aims can be met in several ways:

Investor Relations Programme

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

Group Schemes

The Aberdeen Group administers several savings schemes including the Share Plan, ISA and the Children's Plan. These schemes allow investment at lower costs and have proved popular with private investors.

Direct Response Advertising

AAM advertise the packaged product availability of the Company in the specialist financial press.

Direct Mail

Periodic mail shots of information packs inviting named addressees to respond is a low-cost method of building awareness and investor databases. Target groups include existing holders of other AAM investment trusts as well as known buyers of investment trusts.

Newsletter

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

Public Relations

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

Shareholder Services

AAM runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately. The marketing programme is under the direction of AAM's Head of Investor Relations for Investment Trusts, who has considerable experience in the marketing and communications of investment products. He is supported by a team of marketing professionals.

Internet

The Company has its own dedicated website at: **www.dunedinsmaller.co.uk.** This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports.

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

If you have any questions about your Company, the Manager or performance, please telephone AAM's Investor Services Department on 0500 00 00 40. Alternatively, internet users may e-mail us at **inv.trusts@aberdeen-asset.com** or write to us at Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex, CM99 2DB.

How to Invest in Dunedin Smaller Companies Investment Trust PLC

Direct

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

Aberdeen's Investment Plan for Children

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

Aberdeen Investment Trust Share Plan

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

Stocks and Shares ISA

An investment of up to £10,680 can be made in the tax year 2011/2012.

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

The annual ISA administration charge is £24 + VAT. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

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

Note

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

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

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

Trust Information

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

Aberdeen Investment Trust Administration
PO Box 11020
Chelmsford
Essex, CM99 2DB

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

Keeping You Informed

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

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

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

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

Shareholder helpline numbers:
Tel. 0871 384 2445
Fax 0871 384 2100
Shareview enquiry line: 0871 384 2233
Textel/hard of hearing line: 0871 384 2255

(Calls to the above Equiniti numbers will be charged at 8p per minute from a BT landline. Other telephony providers' costs may vary. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday excluding bank holidays).

Overseas helpline number: +44 121 415 7047

Literature Request Service

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

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

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

Aberdeen Investment Trust Administration
PO Box 11020
Chelmsford
Essex, CM99 2DB

For information on the Pension Plan, please contact

Capita SIP Services
141 Castle Street
Salisbury
Wiltshire SP1 3TB
Telephone: 0800 13 70 79

The information on pages 46 and 47 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Services Authority.

Glossary of Terms and Definitions

Actual Gearing
Non-current assets divided by shareholders' funds.

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

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

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

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

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

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

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

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

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

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

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

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

Notice of Annual General Meeting

Notice is hereby given that the eighty-fourth Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at 40 Princes Street, Edinburgh, EH2 2BY, on Thursday 2 February 2012 at 12 noon, for the following purposes:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 inclusive will be proposed as ordinary resolutions and resolutions 9 to 11 will be proposed as special resolutions:

1. To receive the Reports of the Directors and auditor and the financial statements for the year ended 31 October 2011.
2. To approve the Directors' Remuneration Report for the year ended 31 October 2011.
3. To approve a final dividend of 2.90p on the Ordinary shares.
4. To re-elect The Earl of Dalhousie as a Director of the Company.
5. To re-appoint KPMG Audit Plc as auditor of the Company.
6. To authorise the Directors to fix the remuneration of the auditor for the year to 31 October 2012.
7. That, with effect from the time of the passing of this resolution the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot in accordance with Section 551 of the Companies Act 2006 shares in the Company and to grant rights ("relevant rights") to subscribe for, or to convert any security into shares in the Company up to an aggregate nominal amount of £789,615 representing approximately 33% of the issued share capital as at the date of the passing of this resolution, such authorisation to expire at the conclusion of the Annual General Meeting of the Company in 2013, unless previously renewed, revoked or varied by the Company in general meeting, but so that this authority shall allow the Company and its Directors to make offers or agreements before such expiry which would or might require such securities to be allotted or relevant rights to be granted after such expiry and the Directors may allot shares or grant relevant rights in pursuance of any such offers or agreements as if such expiry had not occurred.
8. That, subject to and conditional upon the passing of resolution 9 set out below, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with LR 15.4.11 of the Listing Rules of the UK Listing Authority to sell or transfer out of treasury ordinary shares of 5p each in the capital of the Company (the "share(s)") for cash at a price which represents a discount to the net asset value attributable to the ordinary shares at the date of such issue, provided always that:
   (i) such sale or transfer will be limited to a sale or transfer at a price in excess of the average price at which the shares were bought into treasury;
   (ii) where any shares are sold or transferred out of treasury pursuant to this authority at a discount to the then prevailing net asset value of the shares, such discount must be lower than the average discount to the net asset value per share at which the Company acquired the relevant shares;
   (iii) the aggregate net asset value dilution associated with all sales of treasury shares in any one financial year does not exceed 0.5% of net assets;
   (iv) this power shall be limited to the sale of shares having an aggregate nominal value of £119,639, being approximately 5% of the nominal value of the issued share capital of the Company, as at the date of the passing of this resolution and provided further that the number of shares to which this power applies shall be reduced from time to time by the number of shares which are allotted for cash as if section 561(1) of the Companies Act 2006 did not apply pursuant to the power conferred on the Directors by resolution 9 set out below; and
   (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2013, (unless such authority is renewed, varied or revoked by the Company in general meeting prior to such time) save that the Company may, prior to such expiry, make an offer or agreement which would or might otherwise require treasury shares to be sold or transferred after such expiry and the Directors may sell or transfer treasury shares pursuant to such offer or agreement as if the authority conferred hereby had not expired.
9. That, subject to the passing of resolution number 7 set out above, the Directors be and are hereby empowered, pursuant to Sections 570 and 573 of the Companies Act 2006 ("the Act"), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority conferred by resolution number 7 above or by way of a sale of treasury shares, in each case as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:
   (i) (otherwise than pursuant to sub-paragraph (ii) below) which are, or are to be wholly paid up in cash, at the price of not less than the net asset value per share at allotment, as determined by the Directors, up to an aggregate nominal value of £119,639; and

(ii) in connection with an offer by way of rights issue in favour of all holders of Ordinary shares where the equity securities respectively attributable to the interests of all such holders are either proportionate (as nearly as may be) to the respective number of Ordinary shares held by them on the record date of such allotment or to holders of other equity securities as required by the rights of these securities (but subject in either case to such exclusions, limitations, restrictions or other arrangements as the Directors consider necessary, expedient, or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in or under the laws of, or requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever) at a price of not less than the net asset value per share at allotment, as determined by the Directors;

and shall expire at the conclusion of the Annual General Meeting of the Company in 2013, but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.

10. That, in substitution for any existing authority under Section 701 of the Companies Act 2006 (the "Act"), the Company be and it is hereby generally and unconditionally authorised, in accordance with Section 701 of the Act, to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Ordinary shares of 5p each in the capital of the Company ("Ordinary shares") provided that:
    (i) the maximum aggregate number of Ordinary shares hereby authorised to be purchased shall be 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for an Ordinary share shall be 5p (exclusive of expenses);
    (iii) the maximum price (exclusive of expenses) which may be paid for an Ordinary share shall be the higher of:
        a) 5% above the average of the market values of the Ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the Ordinary shares for the five business days immediately preceding the date of purchase; and
        b) the higher of the price of the last independent trade in Ordinary shares and the highest current independent bid for Ordinary shares on the London Stock Exchange; and
    (iv) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase Ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary shares pursuant to any such contract or contracts.

11. That, in substitution for any existing authority under Section 701 of the Companies Act 2006 (the "Act"), the Company be and it is hereby generally and unconditionally authorised, in accordance with Section 701 of the Act, to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Subscription shares of 0.001p each in the capital of the Company ("Subscription shares") provided that:
    (i) the maximum aggregate number of Subscription shares hereby authorised to be purchased shall be 14.99% of the issued Subscription shares as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for a Subscription share shall be 0.001p (exclusive of expenses);
    (iii) the maximum price (exclusive of expenses) which may be paid for a Subscription share shall be the higher of:
        a) 5% above the average of the market values of the Subscription shares (as derived from the Daily Official List of the London Stock Exchange) for the Subscription shares for the five business days immediately preceding the date of purchase; and
        b) the higher of the price of the last independent trade in Subscription shares and the highest current independent bid for Subscription shares on the London Stock Exchange; and
    (iv) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase Subscription shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Subscription shares pursuant to any such contract or contracts.

By order of the Board
Aberdeen Asset Management PLC
Secretary
27 December 2011

Registered office:
40 Princes Street
Edinburgh
EH2 2BY

Notes:

(i) A member entitled to attend and vote at the meeting may appoint a proxy or proxies to exercise all or any of his/her rights to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share.

(ii) A form of proxy is enclosed. To be valid, any proxy form or other instrument of proxy and any power of attorney or other authority, if any, under which they are signed or a notarially certified copy of that power of attorney or authority should be sent to the Company's Registrars, Equiniti Limited, Freepost 10850, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZR so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the meeting.

(iii) The return of a completed proxy form or other such instrument of proxy will not prevent a member attending the Annual General Meeting and voting in person if he/she wishes to do so.

(iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual and by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

(v) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

(vi) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(viii) The right to vote at a meeting is determined by reference to the Company's register of members as at 6.00 p.m. on 31 January 2012 or if this meeting is adjourned, 6.00 p.m. on the day two days prior to the date of the adjourned meeting (excluding non-working days). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.

(ix) As at 14 December 2011 (being the latest business day prior to the publication of this notice) the Company's issued share capital comprised 47,855,443 Ordinary shares of 5p each. Each Ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 14 December 2011 was 47,855,443.

(x) A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in notes (i) to (iii) above do not apply to a Nominated Person. The rights described in those notes can only be exercised by registered members of the Company.

(xi) Members who have general queries about the Annual General Meeting should contact the Company Secretary in writing. Members are advised that any telephone number, website or email address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.

(xii) It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

(xiii) No Director has a service contract with the Company. Copies of the Directors' letters of appointment are available for inspection on any day (except Saturdays, Sundays and bank holidays) from the date of this notice until the date of the meeting during usual business hours at the Company's registered office and for 15 minutes prior to, and at, the meeting.

(xiv) Information regarding the Annual General Meeting is available from the Company's website, www.dunedinsmaller.co.uk

(xv) As a member, you have the right to put questions at the meeting relating to business being dealt with at the meeting.

(xvi) Under section 338 of the Companies Act 2006, members may require the Company to give, to members of the company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under section 338A of that Act, members may request the company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.

Corporate Information

Directors

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

Manager and Registered Office

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

Company Registration Number: SC 14692

Stockbrokers

Canaccord Genuity Limited
7th Floor, Cardinal Place
80 Victoria Street
London SW1E 5JL

Registrar

Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
Shareholder Helpline: 0871 384 2445

(Calls to the above Equiniti number will be charged at 8p per minute from a BT landline. Other telephony providers' costs may vary. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday excluding bank holidays).

Overseas helpline number: +44 121 415 7047

Auditor

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

Website

www.dunedinsmaller.co.uk

Your Company's History

The Company was incorporated on 19 July 1927

Issued Share Capital at 31 October 2011

47,855,443	Ordinary 5p shares
8,526,157	Subscription 0.001p shares

Capital History

7 May 1997	£15,000,000 raised via a 25 year 8.375% Debenture issue
6 July 2000	100,000 Ordinary shares purchased for cancellation
15 March 2002	150,000 Ordinary shares purchased for cancellation
3 August 2004	276,281 Ordinary shares purchased for cancellation
29 November 2006	Pursuant to a Tender Offer for up to 30% of the Ordinary shares in issue, 4,882,087 Ordinary shares were purchased by tender and cancelled at 740.49p per share
30 November 2006	Sub-division of Ordinary shares of 25p each into five Ordinary shares of 5p each
30 November 2006	Bonus Issue of 8,543,496 Subscription shares
1 December 2006	£15,000,000 8.375% Debenture Stock 2022 repaid at a price of £143.09 per £100 nominal of Debenture Stock
28 February 2007	11,717 Subscription shares converted into 5p Ordinary shares
Year ended 31 October 2007	7,642,556 Ordinary shares purchased for cancellation
28 February 2008	2,752 Subscription shares converted into 5p Ordinary shares
Year ended 31 October 2008	1,407,500 Ordinary shares purchased for cancellation
Year ended 31 October 2009	70,000 Ordinary shares purchased for cancellation
28 February 2010	1,779 Subscription shares converted into 5p Ordinary shares
28 February 2011	1,091 Subscription shares converted into 5p Ordinary shares