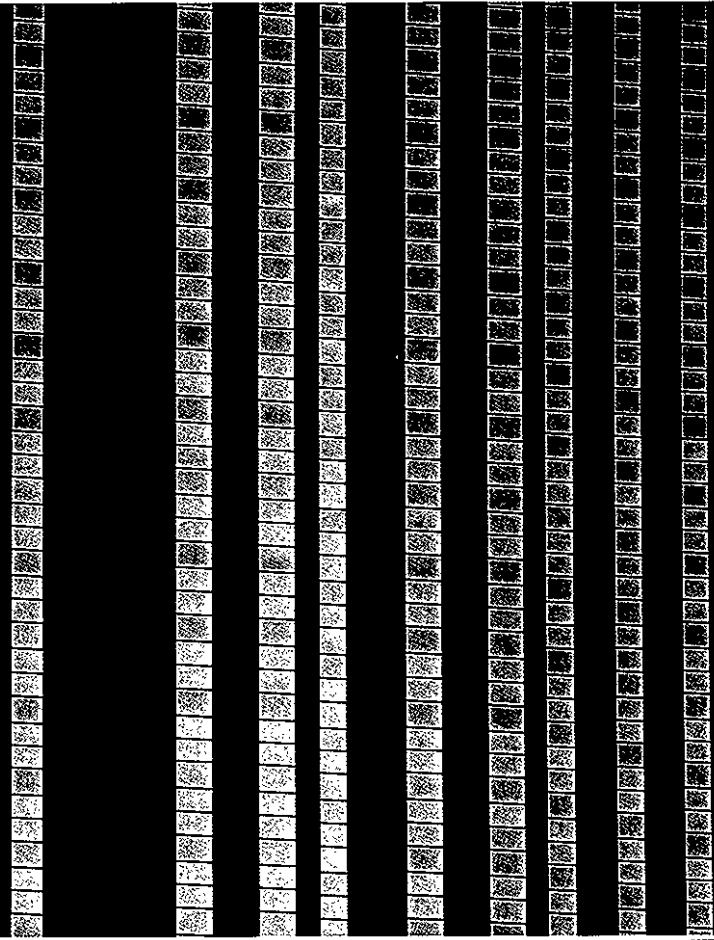
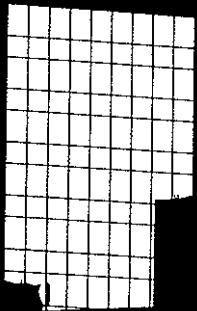


14692
REPLACEMENT
ACCOUNTS

ANNUAL REPORT 1995

DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC



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COMPANIES HOUSE 08/05/96



DUNEDIN

ANNUAL REPORT 1995

DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC



- 1 Financial Highlights
- 2 Objective and Long-Term Record
- 3 Chairman's Statement
- 4 Investor Information
- 5 Financial Calendar and Analysis of Shareholders
- 6 Manager's Review
- 9 Analysis of Valuation
- 10 Long-Term Record and Investment Changes
- 11 Comparison of Market Capitalisation and Unquoted Investments
- 12 List of Holdings
- 13 Board of Directors
- 15 Directors' Report & Accounts
- 28 Statement of Directors' Responsibilities and Auditors' Report
- 29 Notice of Meeting



FINANCIAL HIGHLIGHTS

Net asset value increased
by 11.2% to 350.3p

0 2 4 6 8 10 12 %

Net Asset Value



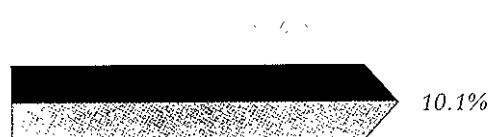
FT-SE Small Cap Index (ex-Investment Trusts)

Percentage change from 1 November 1994 – 31 October 1995

Share price increased
by 6.5% to 326.0p

0 2 4 6 8 10 12 %

Share Price



FT-SE Small Cap Index (ex-Investment Trusts)

Percentage change from 1 November 1994 – 31 October 1995

Annual dividend
maintained at 9.0p

0 2 4 6 8 10 12 p

Dividend - 1995

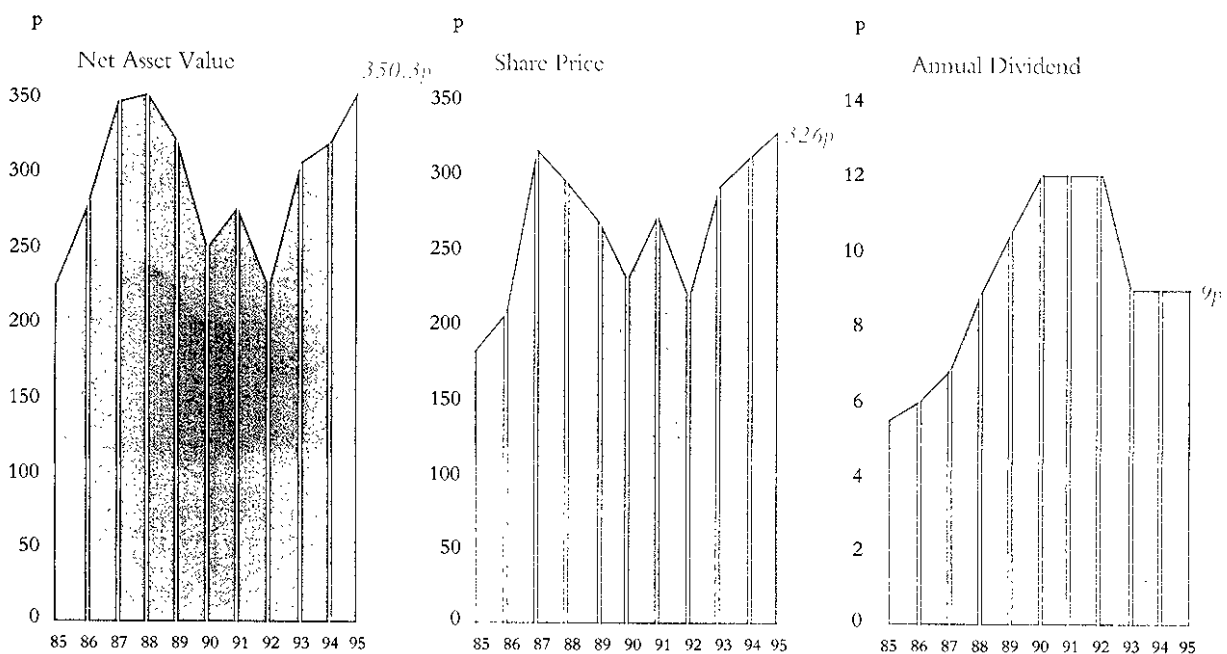


Dividend - 1994

OBJECTIVE

The achievement of long-term capital growth
from a portfolio of smaller companies in the
United Kingdom, at a higher rate than the FT-SE
Small Cap Index (excluding Investment Trusts).

LONG-TERM RECORD



CHAIRMAN'S STATEMENT



The company's asset value has risen again this year by more than the benchmark index for smaller companies. The net asset value per share increased by 11.2% to 350.3p while the share price rose by 6.5% to 326.0p. The strategy of reducing the portfolio's exposure to companies at the very small end of our chosen investment universe, which was implemented last year, has again been beneficial in terms of capital performance. During the two years since the company's investment objectives were refocussed, the increase in the net asset value per share has exceeded the benchmark index by almost 8%.

Dividend income also showed reasonable growth, but there was a sharp reduction in underwriting income compared with the exceptional level of the previous year. Furthermore, the board continued the policy, started midway through last year, of using borrowed money to increase the rate of asset growth and this has led to a rise in the interest charge. These were the two main reasons for the fall in earnings to 7.78p per share. The board is recommending an unchanged dividend for the year of 9.0p per share, with the shortfall being covered from revenue reserve.

As I stated last year, it is the board's view that it is in shareholders' best interests to use short-term borrowings in order to increase the rate of asset growth during periods when we are confident of the investment outlook. The interest cost of this strategy does, however, have an adverse impact on the revenue available for dividends. At present the stockmarket as a whole appears to be no more than reasonably valued, but shares in small companies are perceived to be better value than those in large ones. It is likely, therefore,

that the borrowings will be retained until this situation changes.

Ernst & Young have indicated their intention not to seek re-election as the company's auditors and on behalf of the board I would like to thank them for their valuable service over many years. A resolution recommending the appointment of KPMG as auditors will be proposed at the Annual General Meeting.

In accordance with current practice the directors are seeking to renew the power at the Annual General Meeting to issue relatively small numbers of shares to satisfy market demand if necessary. Such new shares will only be issued at a premium to net asset value at the time of issue.

Shareholders may have seen in the press recently that there have been some changes in the investment personnel of Dunedin Fund Managers. Following these, a new appointment has been made from within Dunedin as manager of your company.

Having passed my 65th birthday, I am not standing for re-election as a director at the Annual General Meeting. I am glad to report that the directors have invited Mr Ian Clubb who was appointed to the board during the year, and whose appointment falls to be confirmed at the Annual General Meeting, to succeed me as Chairman.

I believe the company is well placed to offer investors a satisfactory way in which to participate in the higher growth potential of shares in smaller companies in the UK and I look forward to its future with confidence.

W D Marr, Chairman
12 December 1995

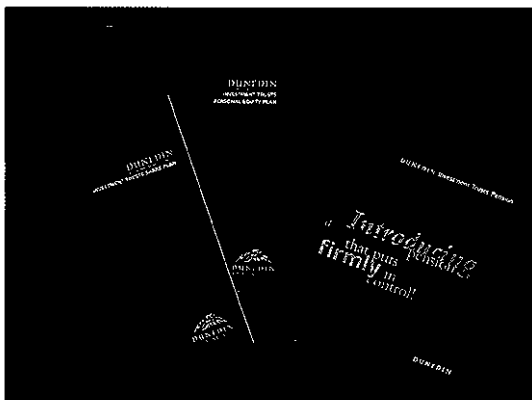
INVESTOR INFORMATION

It is the business of investment trusts, advised by their managers, to invest in the shares of other companies. The purchase of investment trust shares is therefore an ideal way to acquire a spread of investments, managed at low cost, to provide capital and/or income growth.

£1,000 invested in Dunedin Smaller Companies Investment Trust on 1

November 1980 would, after 15 years with dividends reinvested, have been worth £7,079 by 1 November 1995. This compares with £3,203 for the highest rate available from a building society and £2,185 for the UK Retail Prices Index.

Source: Micropal 1 November 1980 – 1 November 1995. Basis: Net income reinvested. Shares: mid-market price.



HOW DO YOU INVEST?

Ordinary shares – Shares can be bought or sold directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, shares can be bought directly through the Dunedin Investment Trusts Share Plan and the Dunedin Investment Trusts Personal Equity Plan.

Dunedin Investment Trusts Share Plan – Originally introduced in 1987, the Plan has attracted around 700 investors to the company.

You can either make **regular monthly payments** (minimum £30 per month) or invest an occasional **lump sum** (minimum £250 initially and £30 thereafter). If you already own shares you can also join the Share Plan and have your dividends reinvested.

There is **no charge** for buying, selling or holding shares through the Plan, other than Government Stamp Duty of 0.5% which is currently payable on all share purchases.

Dunedin Investment Trusts Personal Equity Plan – Launched in 1990 the Dunedin PEP has now attracted over 1,800 investors to the company. The advantage of the PEP is that the income and capital growth from all investments held within it are free from tax. You can invest up to £6,000 in the company through a PEP in the current tax year. The Dunedin PEP is considerably cheaper than most other PEPs, with a set up cost of £30 (plus VAT) and an annual charge of 0.5% (plus VAT). There is **no charge** for buying or selling shares in the company other than Government Stamp Duty of 0.5% on purchases.

Dunedin Investment Trusts Share Exchange Scheme – This provides a convenient method for you to sell an existing shareholding in any UK quoted company with the proceeds being reinvested in the company through either the Share Plan or the PEP.

Dunedin Investment Trusts Pension –

This low cost and flexible pension allows you to include the company in your retirement planning. The Dunedin Pension offers you a straightforward investment trust based alternative to traditional options and offers a Personal Pension Plan and a Free Standing Additional Voluntary Contribution Plan. It has received a lot of good comment in the press and is proving popular with investors. Contributions can be made monthly, yearly or by lump sums, at very low cost.

Note – Please remember that past performance is not necessarily a guide to the future. The price of shares and the income from them can fall as well as rise and you may not get back the amount invested.

Keeping you informed – The company's share price appears under the heading 'Investment Trusts' in the Financial Times, The Daily Telegraph, The Times, The Guardian, The Independent, The Scotsman and The Herald. You can also obtain the latest share price by phoning FT Cityline on 0336 432385.

This year's Annual General Meeting will be held at Dunedin House on Tuesday 23 January 1996 at 2.00pm.

For information on the Share Plan, PEP, Pension and Share Exchange Schemes please contact:

Investor Relations Department
Dunedin House
25 Ravelston Terrace
Edinburgh EH4 3EX
Telephone: **0131-315 2500**
or **FREE** on **0800 838993** (24 hours)

FINANCIAL CALENDAR

Announcements, ordinary share dividend payments and the issue of the annual and interim reports may normally be expected in the months shown below:

January – Annual General Meeting and final dividend paid

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

July – Interim dividend paid

December – Preliminary figures and recommended final dividend for year announced and annual report and accounts published



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

ANALYSIS OF SHAREHOLDERS

No of shares	No of holders	% of shares
1 – 5,000	3,378	28.0
5,001 – 25,000	164	9.7
Over 25,000	45	62.3
	<u>3,587</u>	<u>100.0</u>

Type of shareholder

UK individuals (including Share Plan and PEP)	3,515	47.2
Insurance companies and pension funds	56	30.3
Investment and unit trusts	4	17.8
Banks and nominees	4	3.2
Local authorities	3	0.8
Other institutions	5	0.7
	<u>3,587</u>	<u>100.0</u>

MANAGER'S REVIEW

Results – The year under review has been rewarding for investors in UK equities with the FT-SE-A All-Share Index rising by 12.9%. Small companies however lagged slightly behind the main market with the FT-SE Small Cap Index (excluding Investment Trusts) rising by 10.1%. The company has continued to perform well against its benchmark index and, following a strong second half performance, the net asset value per share rose by 11.2% for the year.

In anticipation of an improved environment for small companies an element of capital gearing was introduced last year. This level of borrowings was maintained at £5m during the year and this has assisted the performance of the company. At the year end total investments represented 109% of shareholders' funds.

The increases in both the net asset value per share and the index during the year were confined mainly to the second half. A strong performance on Wall Street, where investors decided that interest rates had peaked, boosted the UK market which was also encouraged by strong corporate earnings, dividend growth and latterly by a number of large takeovers. More recently the UK market has continued to advance despite a distinct weakening in the economy which has resulted in a number of companies reporting profits below expectations and forecasts being lowered.

A particular feature of the small company sector during the year was that the larger constituents performed significantly better than

those with relatively low market capitalisations. The performance of the very small companies is not adequately covered by the FT-SE Small Cap Index which excludes the vast majority of companies capitalised below £50m. A new index called the FT-SE-A Fledgling Index was introduced at the beginning of this year to address this issue. The indicated rise in this index for the past twelve months was 6.1%.

The smallest companies have been most vulnerable to the difficult trading conditions affecting certain areas of the economy and to the more recent slowdown. This has been a major factor in holding back the performance of this sector. The company's exposure to this part of the market has been reduced further during the last year with the disposal of a number of holdings including Leslie Wise and Record Holdings. The weighting in stocks capitalised below £50m has been reduced from approximately 42% two years ago to 26% at 31 October 1995. A full breakdown of the company's holdings by market capitalisation is included on page 11. However, despite the disappointing performance in this area of the market, there have been some successes, notably Bridport Gundry which has continued its rehabilitation under new management.

Reflecting the nature of the economy the performance by industrial sector has been varied. The building, chemical, food manufacturing and consumer goods companies have generally had to cope with difficult market conditions including depressed demand and an inability to pass on input price

increases. On the other hand engineering companies, particularly exporters, drinks companies and technology related companies have experienced more favourable conditions.

Performance, however, remains very stock specific and even within the difficult sectors there have been successes. Graham Group in the building sector and Wolstenholme Rink and Inspec in the chemicals sector performed very strongly. The share price performance of Inspec, which has doubled since flotation in March 1994, coupled with a rights issue resulted in the company's market capitalisation considerably exceeding the upper limit of our investment universe and the holding was sold during the year.

Elsewhere in the portfolio excellent results were behind the sharp price rises in Acal, Renold, Boxmore, Watson & Philip, TLG and Wellman, while Forth Ports benefited additionally from acquisitions and HTV was the subject of takeover speculation.

The major disappointments during the year were confined largely to the consumer sector and included Airsprung Furniture, Kenwood, Austin Reed and Walker Greenbank, all of which suffered from weak demand and pressure on margins. The inability to pass on input price increases also contributed to the weakness at JLI and Nobo, while Helene and Prospect Industries suffered from company specific problems.

A number of successful additions have been made to the portfolio during the year covering

a variety of industries. These include P&P and Eurodis Electron which give exposure to growth in the computer and electronics sectors, Mayflower and Pressac in the engineering sector, Capita, a leading provider of outsourcing services, and Havclock Europa, which is involved in the design and fitting of commercial interiors principally in the retail and financial sectors.

There was significantly less money raised for new issues during the year under review which has been helpful for the small company sector generally. New issues are an important source of ideas for potential new investments and companies are appraised rigorously and those with short track records or which are loss making are avoided. The company participated successfully in several new issues and has retained a holding in Oasis, a ladies fashion retailer which offers above average growth potential.

The dividend income from the portfolio continued to rise as improving company profitability and cash flow was reflected in higher dividends. Despite this, however, there was an overall decline in earnings per share to 7.78p. This year the profit and loss account has had to bear a full year's interest charge on the company's borrowings and in addition there has been a sharp reduction in underwriting commission received.

Following a period of strong performance the company's investment in Robert Fleming Holdings, which at 31 October 1994

LONG-TERM RECORD

Year ended	Assets at valuation	Preference	Ordinary	Revenue	Per Ordinary Share			Share price
		stock and other borrowings	shareholders' funds	available for ordinary dividends	Net asset value	Earnings	Dividend	
31 Oct	£000	£000	£000	£000	p	p	p	p
1985	38,243	425	37,818	944	225.1	5.62	5.40	183
1986	46,877	425	46,452	1,023	276.5	6.09	6.00	204
1987	58,317	425	57,892	1,176	344.6	7.00	6.80	313
1988	59,261	425	58,836	1,516	350.2	9.02	8.80	291
1989	54,150	425	53,725	1,797	319.8	10.70	10.50	265
1990	42,413	425	41,988	2,030	249.9	12.08	12.00	227
1991	46,916	425	46,491	1,902	276.7	11.32	12.00	273
1992	37,518	425	37,093	1,821	220.8	10.84	12.00	219
1993	51,388	425	50,963	1,465	303.4	8.72	9.00	290
1994	57,933	5,000	52,933	1,506	315.1	8.96	9.00	306
1995	63,851	5,000	58,851	1,307	350.3	7.78	9.00	326

Figures for 1989 and subsequent years reflect the change in accounting policy from including investment income on a receivable basis to an ex-dividend basis.

INVESTMENT CHANGES

	Valuation	Purchases	Sales	Appreciation	Valuation
	at 31.10.94			(depreciation)	at 31.10.95
Equities	£000	£000	£000	£000	£000
UK	57,888	14,546	(10,907)	2,162	63,689
Other areas	474	—	—	(203)	271
Total	58,362	14,546	(10,907)	1,959	63,960

COMPARISON OF MARKET CAPITALISATION

As at 31 October 1995

Unquoted companies

Equity market capitalisation

£m

0 – 25

25 – 50

50 – 75

75 – 100

100 – 125

125 – 150

150 – 175

175 – 200

200 – 225

225 +

Total

Dunedin Smaller
Companies weighting

%

10.1

16.3

19.5

14.7

8.0

10.8

4.9

3.3

4.9

7.5

100.0

FTSE Small Cap
Index (ex-Investment
Trusts) weighting

%

0.4

4.6

11.8

13.6

12.0

11.5

8.2

8.8

9.9

19.2

100.0

UNQUOTED INVESTMENTS IN THE TOP TEN LARGEST HOLDINGS

	Description of business	Proportion of capital owned %	Book cost £000	Market value £000	Net asset value £000	Earnings per share p	Dividend per share p	Dividend cover
DFM	Investment	2.2	115	1,571	283	39.7	13.2	3
Holdings*	management					(28.2.95)		

* Since 31 October 1995, funds under management have decreased and as a result, on the formula basis of valuation, the value of the investment in DFM Holdings at 30 November was £1,542,000.

LIST OF HOLDINGS

	£'000		£'000
Wolstenholme Rink	1,739	600 Group	604
DFM Holdings *	1,571	Rotork	585
Watson & Philip	1,542	Eldridge Pope	568
Greggs	1,514	Saville Gordon (J)	565
Avon Rubber	1,312	Manders	564
B I Group	1,306	Dowding & Mills	562
UDO	1,265	Austin Reed	561
Acal	1,257	Oasis	557
Eurodis Electron	1,202	JLI	533
Servomex	1,151	Parkside International	504
domnick hunter	1,116	Vardon	502
Renold	1,086	Alexandra Workwear	497
Grampian Holdings	1,072	My Kinda Town	481
British Polythene	1,041	Brandon Hire	475
HTV	1,040	Fife Indmar	475
Forth Ports	1,015	GWR Group	474
Carclo Engineering	980	Birkby	453
Matthew Clark	962	Regal Hotel	442
Bridport Gundry	948	Brent Chemicals	441
Peter Black	907	Kenwood Appliances	437
Walker Greenbank	880	PCT	425
TLG	860	Richardson Westgarth	425
Boxmore	855	Helical Bar 5.25% Cn Cm	400
Mayflower	841	Red Pref 2012	
Wellman	832	Helene	399
Perry	820	Nobo Group	391
Havelock Europa	819	Barry Wehmiller International	373
EFT	795	Airsprung Furniture	355
Hicking Pentecost	777	Midland Independent Newspapers	348
Spandex	772	Allied London Properties	345
Metsec	750	Hobson	336
Protean	750	Princedale	335
Bett Brothers	747	Waste Recycling	318
Cala	741	Frederick Cooper	316
Headlam	740	Prospect Industries	259
Pressac	740	UK Safety	259
City Centre Restaurants	705	Oceonics	234
TGI	703	Hemingway Properties	225
Telspec	698	Compel	215
P & P	684	Candover 1987 Fund*	202
Swallowfield	680	Baris Holdings	186
Capita	667	Scottish Highland Hotels *	146
Marling Industries	666	J F Japan Venture 1 *	139
Wyko	666	Quadrant	104
Denby	657	Leach International *	87
Epwin	645	British Build. & Eng. Appliances	86
Wyevale Garden Centres	644	Dunedin Berkeley Development	45
Ricardo	640	Part Red Pref *	
Graham	635	Quality Software Products (nil paid)	32
Ascot	627	Ferrum	13
Partco	620		
			63,960

Details in respect of the unquoted investment included in the top ten holdings are given on page 11.

* Unquoted investments

BOARD OF DIRECTORS



From left to right, G S Lowden, I M Clubb, Lord Ramsay, W D Marr, M G N Walker.

W D Marr, (65), was appointed in 1992 and has been Chairman since 1993. He is also on the boards of a number of other investment trusts. Prior to his retirement in 1992, Mr Marr was Chairman and Chief Executive of Dunedin Fund Managers Limited.

I M Clubb,* (54), was appointed to the board on 21 March 1995. He is Chairman of Central Transport Rental Group and a director of Fenchurch, First Choice Holidays, Shanks & McEwan Group, TLG, Expro International Group and B. Elliot.

G S Lowden,* (68), a director since 1981, was formerly Chairman of the Dundee Port Authority and Managing Partner, Peat Marwick McLintock, Dundee.

Lord Ramsay,* (47), a director since 1993, is Chairman of Jamestown Investments Limited and a director of Alex Brown and Sons Holdings Limited and Dunedin Japan Investment Trust.

M G N Walker,* (62), a director since 1982, is Chairman of Sidlaw Group and I&S UK Smaller Companies Trust and is a director of Scottish Hydro-Electric.

* Member of the Audit and Management Engagement Committee.

There have been no changes in the above holdings between 1 November 1995 and 12 December 1995. I M Clubb was appointed as a director on 21 March 1995 and in accordance with the Articles of Association retires at the Annual General Meeting and is eligible for re-election. A resolution to this effect will be proposed at the Annual General Meeting. W D Marr, who retires from the board by rotation, has indicated his intention to retire at the conclusion of the Annual General Meeting and is not offering himself for re-election.

Contracts of Service

No director has a service contract with the company. No contracts of significance in which any director has a financial interest were in existence at any time during the year.

Directors' and Officers' Insurance

The company maintains insurance cover in respect of directors' and officers' liability.

Authority to Issue New Shares

The directors are proposing as Special Business at the Annual General Meeting a resolution which seeks to give the directors authority to allot unissued share capital for cash without first being required to offer such shares to existing shareholders. This authority will last until the earlier of 22 April 1997 or the conclusion of next year's Annual General Meeting. The share capital to which this authority relates represents £210,000.

Management

Dunedin Fund Managers Limited is the Manager of the company and received a fee of 0.40% of the assets of the company. Other than in exceptional circumstances the contract is terminable on three years' notice. In addition, Dunedin Fund Managers Limited received £50,000 in respect of secretarial services.

Notifiable Interest

As at 12 December 1995 the undernoted shareholders had reported an interest of 3% or more in the company's share capital:

Ordinary Shares of 25p	Holding	% of class
The Edinburgh Investment Trust plc	1,630,000	9.70
United Friendly Insurance plc	1,615,000	9.60
DC Thomson & Company Ltd	902,000	5.30
Dunedin Income Growth Investment Trust PLC	835,000	4.97
Scottish Widows Group	800,000	4.76
General Accident Executor and Trustee Co Ltd	653,000	3.89

Corporate Governance

The company has complied with the provisions of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance which were in force throughout the year.

The guidance for compliance with the 'internal financial controls' provision of the Code was issued during the year. The directors acknowledge that they are responsible for the company's system of internal financial control. The board meets regularly and reviews performance against approved estimates and forecasts. In addition, the Manager and custodian maintain their own system of internal financial controls. The Audit and Management Engagement Committee receives reports from the Internal Audit and Compliance Department, a process which is designed to ensure that the Committee is aware of the scope of work undertaken by that department along with details of any significant weaknesses arising as a result of this work. These systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. The directors have reviewed the operation and the effectiveness of the company's system of controls during the year. The directors consider that the company has adequate financial resources to continue in operational existence for the foreseeable future. For this reason they continue to use the going concern basis in preparing the accounts.

The company's auditors, Ernst & Young, have confirmed that in their opinion: with respect to the directors' statement on internal financial controls and going concern above, the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement above appropriately reflects the company's compliance with the other paragraphs of the Code specified for their review.

They were not required to perform the additional work necessary to, and did not, express any opinion on its corporate governance procedures nor the ability of the company to continue in operational existence.

Contributions

In accordance with its normal practice the company has made no contributions to political or charitable organisations during the year.

Auditors

The auditors, Ernst & Young, Chartered Accountants, have indicated their intention to retire at the Annual General Meeting. A resolution recommending the appointment of KPMG as auditors and a proposal to fix their remuneration will be submitted to the Annual General Meeting.

By order of the board,
Dunedin Fund Managers Ltd, Secretary,
Edinburgh, 12 December 1995

DUNEDIN FUND MANAGERS LIMITED

Claire F. Morrison
.....
AUTHORISED SIGNATORY

REVENUE ACCOUNT

FOR THE YEAR ENDED 31 OCTOBER	Note	1995	1994
		£000	£000
Revenue			
Income from investments	2	2,153	2,141
Interest receivable on short-term deposits		41	47
Underwriting commissions		127	199
		2,321	2,387
Less			
Administrative expenses	3	299	328
Interest payable	4	333	145
		634	473
Revenue before taxation		1,687	1,914
Taxation	5	236	402
Revenue after taxation		1,451	1,512
Preference dividend		—	6
Revenue available for ordinary shareholders		1,451	1,506
Dividends on ordinary shares	6	1,512	1,512
Transfer from revenue reserve	14	(205)	(6)
Earnings per ordinary share	7	7.70p	8.96p
Dividends per ordinary share	6	9.00p	9.00p

The notes on pages 22 to 27 form part of these accounts.

BALANCE SHEET

AT 31 OCTOBER	Note	1994	1994
		£000	£000
Fixed assets			
Investments	8		58,362
Current assets			
Debtors	10	827	
Cash and short-term deposits		417	
		<u>1,244</u>	
Less			
Creditors			
Amounts falling due within one year	11	<u>6,673</u>	
Net current liabilities			<u>(5,429)</u>
Total assets less current liabilities			<u>52,933</u>
Capital and reserves			
Called up share capital	13		
Ordinary shares			4,200
Capital reserves			
Redemption reserve	14		425
Realised reserves	14	35,765	
Unrealised appreciation	14		11,913
Revenue reserve	14	630	
Ordinary shareholders' funds		<u>52,933</u>	

The notes on pages 22 to 27 form part of these accounts.



W D Marr, Director

The accounts were approved by the board on 12 December 1995.

NOTES ON THE ACCOUNTS

1 Accounting basis and conventions

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

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

(b) Investments – Listed investments are valued at market prices, foreign currencies being converted at the rate of exchange ruling at the relevant balance sheet date. Unlisted investments which include investments traded on the Unlisted Securities Market or Alternative Investment Market or under Rule 4.2(a) of The Stock Exchange are valued by the directors taking account of latest dealing prices, brokers' valuations and other available accounting information as appropriate.

(c) Realised capital reserves – Gains and losses on realisation of investments and currency are dealt with in the realised capital reserves. 50% of the investment management and secretarial fees along with the associated irrecoverable VAT are charged to this reserve. The associated tax relief is credited to this reserve.

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

(e) Taxation – ACT on dividends paid and proposed is included in current taxation payable and recoverable only to the extent that it is not covered by tax credits on franked investment income received up to the balance sheet date or receivable in the following year. Deferred tax is provided for on short-term timing differences.

2 Dividends and interest

		1995		1994	
		Unfranked	Unfranked	Franked	Unfranked
		£000	£000	£000	£000
Dividends					
Listed investments	– UK	1,956	—	1,822	—
	– Overseas	23	—	—	—
Unlisted investments	– UK	138	—	283	—
	– Overseas	—	—	—	3
Interest					
Listed investments	– UK	—	—	—	33
		2,117	—	2,105	36
Total income from investments		2,135		2,141	

3 Administrative expenses	1994
	£000
Investment management fee	109
Secretarial fee	24
Directors' fees	19
Auditors' remuneration – audit services	8
Other expenses including irrecoverable VAT	168
	<u>328</u>

Particulars of directors' remuneration excluding pension contributions:	1994
Chairman and highest paid director	£5,000
Directors' remuneration including the Chairman fell within the following ranges:	
£Nil-£5,000	4
£5,001-£10,000	—

50% of the investment management and secretarial fees along with the associated irrecoverable VAT are charged against capital. This charge excluding VAT amounted to £143,000 (1994-£133,000).

4 Interest payable	1994
	£000
Interest payable on:	
Bank overdraft	2
Sterling loan (repayable within one year)	143
	<u>145</u>

5 Taxation	1994
	£000
Tax attributable to franked investment income	422
Relief for surplus franked investment income	(28)
	<u>394</u>
Deferred tax	(18)
Overseas tax	1
Irrecoverable Advance Corporation Tax	25
	<u>402</u>

No provision has been made for Advance Corporation Tax on the final dividend as in the opinion of the directors such tax will be fully relieved by tax credits.

6 Dividends	1995	1994
	£000	£000

Dividends on the ordinary shares for the year are as follows:

Interim dividend of 3.0p per share (1994–3.0p) paid 28 July 1995	504	504
Final dividend of 6.0p per share (1994–6.0p) payable 26 January 1996	1,008	1,008
	<u>1,512</u>	<u>1,512</u>

7 Earnings per share	1995	1994
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The calculation of earnings per ordinary share of 7.78p (1994–8.96p) is based upon the following figures:

Number of ordinary shares in issue	16,800,000	16,800,000
Earnings	<u>£1,506,000</u>	<u>£1,506,000</u>

8 Investments	Listed in UK	Unlisted	Total
	£000	£000	£000
Valuation at 31 October 1994	48,948	9,414	58,362
Unrealised appreciation	<u>(7,138)</u>	<u>(4,775)</u>	<u>(11,913)</u>
Book cost at 31 October 1994	41,810	4,639	46,449
Additions at cost	14,240	306	14,546
Disposals at cost	<u>(10,270)</u>	<u>(637)</u>	<u>(10,907)</u>
Transfers at cost	<u>1,411</u>	<u>(1,411)</u>	<u>—</u>
Book cost at 31 October 1995	47,191	2,897	50,088
Unrealised appreciation	<u>11,974</u>	<u>1,898</u>	<u>13,872</u>
Valuation at 31 October 1995	<u>59,165</u>	<u>4,795</u>	<u>63,960</u>

9 Unlisted investments	1995	1994
	£000	£000
Unlisted Securities Market	2,603	4,371
Unquoted	<u>2,490</u>	<u>5,043</u>
	<u>4,193</u>	<u>9,414</u>

10 Debtors	1994
Amounts falling due within one year:	£000
Net dividends receivable	317
Stockbrokers' settlements	409
Deferred taxation	18
Taxation recoverable	66
Other debtors	17
	<u>827</u>

11 Creditors	1994
Amounts falling due within one year:	£000
Stockbrokers' settlements	575
Sterling loan (note 12)	5,000
Deferred taxation	—
Other creditors	90
Final dividend	1,008
	<u>6,673</u>

12 Sterling loan

Details of the short-term unsecured loan outstanding at 31 October 1995 were as follows:

	Amount	%	Interest fixed to
Sterling loan	£5,000,000	7.29375	29 January 1996

13 Share capital	1995	1994
Authorised:	£000	£000
20,800,000 (1994–20,800,000) ordinary shares of 25p	5,200	<u>5,200</u>
Allotted, called up and fully paid:		
16,800,000 (1994–16,800,000) ordinary shares of 25p	4,200	<u>4,200</u>
14 Movements in reserve	£000	
Capital redemption reserve		
Balance at 31 October 1995 and 31 October 1994	625	
Realised capital reserve		
Balance at 31 October 1994	33,765	
Net gains on realisations during year	1,220	
Management and secretarial fees, net of taxation (note 3)	(134)	
Balance at 31 October 1995	34,851	
Unrealised appreciation		
Balance at 31 October 1994	1,913	
Appreciation in the year	1,959	
Balance at 31 October 1995	3,872	
Revenue reserve (distributable)		
Balance at 31 October 1994	630	
Revenue account transfer for the year	(235)	
Balance at 31 October 1995	395	

15 Cash Flow Statement

Reconciliation of operating surplus to net cash	1994
inflow from operating activities	£000
Net revenue before interest payable and taxation	2,059
Decrease/(increase) in debtors	(93)
Increase/(decrease) in creditors	(76)
Tax on investment income included	
within income from UK companies – franked	(422)
– unfranked	—
Investment management fees charged to capital	(157)
Net cash inflow from operating activities	<u>1,311</u>

Analysis of changes in cash during the year

Balance at 31 October 1994	1,570
Net cash inflow/(outflow)	<u>(1,153)</u>
Balance at 31 October 1995	<u>417</u>

Analysis of changes in financing during the year

Balance at 31 October 1995 and 31 October 1994

16 Contingent Liabilities

There are contingent liabilities in respect of underwriting agreements amounting to £1,566,000 (1994–£1,922,000).

Uncalled liabilities in respect of nil paid and partly paid shares amount to £Nil (1994–£308,000).

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The directors are required by law to prepare accounts which give a true and fair view of the state of affairs of the company at the end of the financial year and of its revenue and cash flows for the year. In addition, the directors are responsible for ensuring that adequate accounting records are maintained, that the assets of the company are safeguarded and that fraud and other irregularities are prevented or detected.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts of the company for the year ended 31 October 1995 and that applicable Accounting Standards have been followed.

AUDITORS' REPORT TO THE MEMBERS OF DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC

We have audited the accounts on pages 18 to 27, which have been prepared under the historical cost convention modified to include the revaluation of investments and on the basis of the accounting policies set out on page 22.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 October 1995 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young, Chartered Accountants, Registered Auditor
Edinburgh, 12 December 1995

NOTICE OF MEETING

Notice is hereby given that the sixty-eighth Annual General Meeting of Dunedin Smaller Companies Investment Trust PLC will be held at Dunedin House, 25 Ravelston Terrace, Edinburgh on **Tuesday, 23 January 1996 at 2.00pm**, for the following purposes:

1. To receive the Report of the Directors and the Accounts for the year to 31 October 1995 and to declare a final dividend on the ordinary shares.
2. To re-appoint I M Clubb as a director of the company.
3. To appoint KPMG as auditors of the company and to authorise the directors to fix their remuneration.
4. To consider and, if thought fit, to pass the following resolution as a special resolution:
That the directors be and they are hereby empowered, pursuant to Section 95(1) of the Companies Act 1985, to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) for cash pursuant to the authority granted by an ordinary resolution of the company passed on 19 July 1994 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this authority is limited:
 - (i) to the allotment of equity securities in connection with a rights issue in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise, and
 - (ii) to the allotment (other than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £210,000 ;and shall expire on 22 April 1997 or the conclusion of the next Annual General Meeting of the company after the passing of this resolution (whichever is the earlier) save that the company may, before this authority expires or is replaced, make an offer or agreement which would or might require equity securities to be allotted after such expiry or replacement and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired or, as the case may be, been replaced.

By order of the board, **Dunedin Fund Managers Limited**, Secretary, 12 December 1995.

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

Notes

1. Holders of ordinary shares are entitled to attend and vote at the meeting. Any such holder may appoint another person (whether a member of the company or not) as his proxy to attend and vote on a poll in his stead. Proxies must be lodged at the company's registrars, Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh EH7 4AL not less than 48 hours before the time appointed for the meeting.
2. There are special arrangements for holders of shares through the Dunedin Investment Trusts Share Plan and the Dunedin Investment Trusts Personal Equity Plan. These are explained in the 'Letters of Directions' which such holders will have received with this Report.
3. The following will be available for inspection at the registered office of the company during normal business hours from the date of this notice until the conclusion of the Annual General Meeting:
 - (a) a statement giving details of all transactions of each director and of his family interests in ordinary shares of the company; and
 - (b) the present Articles of Association of the company.



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