SC 146992

2003

Dunedin Smaller Companies Investment Trust plc

Annual Report and Accounts 31 October 2003

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The trust aims to attract long term private and institutional holders wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse trust.

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 manager	Edinburgh Fund Managers plc
Equity shareholders' funds	£74.8 million at 31 October 2003
Market capitalisation	£56.5 million at 31 October 2003
Capital structure	16,550,000 ordinary shares of 25p each
Management fee	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.
PEP/ISA status	The company's shares are eligible for existing general PEPs, PEP transfers and Individual Savings Accounts (ISAs).
AITC	The company is a member of The Association of Investment Trust Companies.

Financial Summary

	At 31 October 2003	2002	% change
Performance			
Total assets less current liabilities (£'000)	89,580	72,043	+24.3
Equity shareholders' funds (£'000)	74,752	57,224	+30.7
Capital return			
Net asset value per share	450.63p	344.67p	+30.7
FTSE SmallCap Index (ex investment companies)	2,493.20	1,777.75	+40.2
Share price	341.50p	264.00p	+29.4
Total return (capital return plus income re-invested)			
Net asset value	—	—	+35.6
FTSE SmallCap Index (ex investment companies)	—	—	+44.4
Share price	—	—	+36.0
Total dividend for year	12.90p	12.90p	—
Revenue return per share	12.09p	9.92p	+21.9
Net asset value per share adjusted for borrowings valued at market value	438.12p	323.15p	+35.6
Discount (difference between share price and net asset value)			
where borrowings are deducted at par value	24.22%	23.40%	
where borrowings are deducted at market value	22.05%	18.30%	
Gearing (ratio of borrowings to shareholders' funds)			
Actual gearing ratio	(0.23%)	(1.25%)	
Maximum potential gearing ratio	20.11%	26.30%	
Expense ratio			
as % of average shareholders' funds	0.98%	1.00%	
Year's Highs/Lows	**High**	**Low**	
Net asset value	461.15p	316.61p	
Share price	361.50p	226.50p	
Discount	20.10%	30.10%	

I am pleased to report a significant recovery in the net asset value and share price of the company following two years of negative returns. Increasing confidence, following the war in Iraq, over the outlook for the global and UK economies focused investors' attention towards the smaller companies sector which staged a powerful recovery in the second half of the financial year.

The Earl of Dalhousie

The company's net asset value rose by 30.7% in the year ended 31 October 2003 to 450.63p while the share price was 29.4% higher at 341.5p. The company's benchmark index, the FTSE SmallCap Index (excluding investment companies) rose by 40.2% well ahead of the FTSE All-Share Index which rose by only 9.6%. The most significant reason for the shortfall in our performance relative to the benchmark index was our underweight position in the more speculative information technology stocks.

The trust 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 portfolio. Our portfolio is structured to provide both capital appreciation and dividend yield to shareholders and your board has been encouraged by the steps taken by our manager to focus the portfolio towards quality companies with good management, strong cash flow, sound balance sheets and offering dividend growth. These disciplines meant that the portfolio had limited exposure to the loss-making, higher risk stocks, particularly in the information technology sector, which recorded sharp gains in their share prices - the FTSE SmallCap Index Information Technology sector rose by 85.4% over the period. The underweight stance to the Information Technology sector has been taken due to the high incidence of corporate failures in the past. The benefits from our strategy however were reflected in our revenue account which produced a significant improvement from the previous year.

The revenue return for the year was 12.09p per share (2002 - 9.92p) and the board is recommending a final dividend of 8.9p which will be paid on 13 February 2004 to shareholders on the register on 16 January 2004. When combined with the interim dividend of 4.0p, the total dividend for the year will amount to 12.9p, unchanged from last year. While the total dividend was not covered by earnings, we are able to maintain the dividend level by using a small part of the company's revenue reserves which have been accumulated in the past. Our preliminary forecasts indicate that the improving trend in the revenue return will continue in the year ahead.

Gearing

The UK's economic prospects are now improving and we will be looking for opportunities to invest part of the company's borrowings. During the period, the manager had the flexibility to increase the level of gearing to 5% of net assets without reference to the board. At 31 October 2003, 100% of net assets were invested in equities.

Management Contract

Our investment manager, Edinburgh Fund Managers plc, was acquired by Aberdeen Asset Management PLC towards the end of the financial year and your board has received assurances from both companies that the management of smaller company funds will be an important part of the new combined group strategy and they will give full support to the existing management team. With these assurances the board did not invoke "the change of control clause" which allows the board to terminate the management agreement without penalty and seek an alternative manager; it did, however, change the notice period from twelve months to three months. The board is conscious that both the investment performance and the discount at which the company's ordinary shares trade relative to net asset value need to improve significantly and will be working with the manager to address these issues in the forthcoming year.

Board Directors

James Barnes (42) was appointed a director of the company on 1 December 2003. Mr Barnes is the Chief Executive of Dobbies Garden Centres, which he joined in 1989 as Business Development Director, having previously been employed in investment banking in London. I am sure James' financial background and involvement in the smaller company sector will be of great benefit to the company.

Michael Walker, having reached the age of 70, will be retiring from the board at the Annual General Meeting. Michael was appointed to the board in 1982 and his wise counsel has been greatly appreciated in the changing investment world of the last 20 years.

Outlook

The fortunes of the UK small company sector are closely linked to the economic cycle. The benefits of a strengthening global economy and a weaker pound in relation to the euro are now beginning to flow through to the UK economy. Business conditions remain challenging but are improving and any on-going recovery will be helpful in off-setting any slowdown in consumer spending. If stronger growth is translated into an improvement in corporate profits, the smaller company sector should remain in favour with investors in the year ahead.

The Earl of Dalhousie
Chairman
19 December 2003

The smaller company sector produced strong gains in the year under review and the trust recorded a good performance in absolute terms, although lagging in relation to the index. The net asset value of the trust rose by 30.7% in the twelve months to 31 October 2003, compared to a rise in the benchmark index of 40.2%. This under-performance relative to the index was attributable largely to our policy of not investing in speculative or loss-making companies. The returns from smaller companies compared favourably to the FTSE All-Share Index gain of 9.6% over the same period.

Market Background

Following the sharp falls in markets during the summer months of 2002, the UK market recovered during October and November. The IT Hardware and Software sectors, in particular, rallied strongly on hopes that trading conditions had stabilised but the market fell back in December as investors focused on the prospect of war in the Middle East and an uncertain economic outlook.

Investors became increasingly cautious during January and February as tensions in the Middle East escalated and the prospect of war in Iraq became a reality. In the event, investor concerns were overdone as the war was contained to Iraq and was of relatively short duration. The low point of the market was reached during March with the market then rallying strongly as investors actively sought riskier and more speculative investments, particularly in the smaller company sector. The share prices of higher risk and loss-making companies, such as Corus and Photo-Me, moved sharply higher while the IT Hardware and Software sectors also surged ahead. Both sectors contain many higher risk companies and we have declined to invest in such loss-making businesses. Whilst painful to relative performance in the short-term, we feel this strategy to be correct in the longer-term if the trust is to generate capital growth for shareholders.

The economic background became increasingly positive during the period as interest rates in the UK were held at low levels and the US government announced significant tax cuts. The share prices of

Andrew Paisley

economically sensitive companies, such as those operating within financial services, transport and electronics, rose strongly on expectations of economic recovery translating into profit growth.

The consumer sector, and in particular the housing market in the UK, remained buoyant and was the key driver in keeping the economy out of recession. The trust has benefited from a number of good performances in the consumer sector including Topps Tiles and French Connection, within retailers, and Bellway and McCarthy & Stone within housebuilders.

It would now appear that the trend of interest rate reductions in the UK is at an end. The biggest risk to the sustainability of economic recovery is the level of debt being carried by the consumer and the ability of the consumer to service this debt if interest rates increase significantly. The manufacturing sector remained depressed throughout the year, although a weakening of sterling against the Euro has provided some respite to the exporting sectors.

Portfolio

The portfolio is structured to deliver capital and income growth. We continue to place a high emphasis on the quality of earnings and cash generation and have avoided investing in early-stage and loss-making companies. These disciplines apply to all sectors but particularly to IT Hardware and Software stocks. The trust remained un-geared for most of the period however the board has given the manager authority to use gearing up to 5% of net assets in reflection of a more positive economic outlook.

Manager's Review

The trust benefited from takeover activity within the portfolio during a period of minimal corporate activity. Takeovers included Clydeport, which was taken over by Peel Holdings, and Compco, which was taken over by City & General Securities.

The trust also benefited from strong share price performances from a number of economically sensitive companies including BWD in specialty finance, Robert Walters in the recruitment sector and Chloride within the electrical sector.

Disappointing performances were recorded by Peterhouse, which suffered from a maintenance contract being taken in-house by Network Rail, and from Television Corporation, which has suffered from a weak advertising environment.

Outlook

Valuations within the smaller companies sector have recovered as investors have sought higher risk investments and economically sensitive stocks. In the cyclical and higher risk areas, such as technology, valuations now look full and could retreat if the anticipated economic recovery is not translated into earnings growth.

We will continue to focus on identifying companies with strong cashflows, asset backing and experienced management and where a sustainable, above-average dividend yield is on offer. In a low inflation environment, we continue to believe that dividend income will contribute a significant component of total return.

The returns generated during the period under review reflect a recovery from the depressed market conditions for smaller companies of the last few years. It was particularly pleasing to see the smaller companies sector significantly out-perform the broader UK market. Whilst such relative performance is unlikely to be so pronounced over the next twelve months, we believe that there are sufficient attractive investment opportunities to make the smaller companies sector a rewarding area in which to invest over the year ahead.

Edinburgh Fund Managers plc
19 December 2003

Attribution analysis for the year ended 31 October 2003

	%
Movement in the Net Asset Value	30.7
Movement in the FTSE SmallCap (ex IT)	40.2
Difference	(9.5)

Difference is attributable to:

	Sector Allocation %	Stock Selection %	Total %
UK Equities	(5.6)	(0.6)	(6.2)
Net Borrowings	(0.7)	—	(0.7)
Capital Charges	(2.4)	—	(2.4)
Retained Revenue	(0.2)	—	(0.2)
Total	(8.9)	(0.6)	(9.5)

Distribution of Portfolio

at 31 October

	FTSE SmallCap Index (ex ICs) Weighting %	Portfolio Weightings 2003 %	2002 %
Resources			
Mining	1.39	—	—
Oil & Gas	2.39	2.84	3.20
	3.78	**2.84**	**3.20**
Basic industries			
Chemicals	1.41	2.79	0.18
Construction & Building Materials	5.05	9.63	11.89
	6.46	**12.42**	**12.07**
General industrials			
Aerospace & Defence	1.04	2.83	3.93
Electronic & Electrical Equipment	3.66	5.74	2.57
Engineering & Machinery	3.46	3.47	3.44
	8.16	**12.04**	**9.94**
Cyclical consumer goods			
Automobiles & Parts	2.64	2.34	1.11
Household Goods & Textiles	1.37	1.94	1.64
	4.01	**4.28**	**2.75**
Non cyclical consumer goods			
Beverages	0.26	—	—
Food Producers & Processors	3.15	2.52	1.71
Health	3.87	1.97	2.73
Personal Care & Household Products	0.62	—	—
Pharmaceuticals	3.90	0.78	—
	11.80	**5.27**	**4.44**
Cyclical services			
General Retailers	9.65	5.81	4.25
Leisure and Hotels	3.56	4.03	9.20
Media & Entertainment	4.59	3.55	3.56
Support Services	11.82	9.97	7.63
Transport	3.77	2.42	2.99
	33.39	**25.78**	**27.63**
Non cyclical services			
Food & Drug Retailers	0.34	0.50	—
Telecommunication Services	1.77	0.74	0.43
	2.11	**1.24**	**0.43**
Utilities			
Electricity	0.10	—	—
Utilities, other	0.60	—	—
	0.70	—	**—**
Financials			
Insurance	3.76	1.95	2.48
Investment Companies	—	0.76	—
Real Estate	7.75	5.96	7.84
Speciality & Other Finance	5.91	4.70	5.04
	17.42	**13.37**	**15.36**
Information technology			
Information Technology Hardware	3.72	0.23	0.78
Software & Computer Services	8.45	5.58	1.58
	12.17	**5.81**	**2.36**
Total equities (incl convertibles)	**100.00**	**83.05**	**78.18**
Net current assets	—	16.95	21.82
Total assets less current liabilities	**100.00**	**100.00**	**100.00**

List of Largest Investments

at 31 October 2003

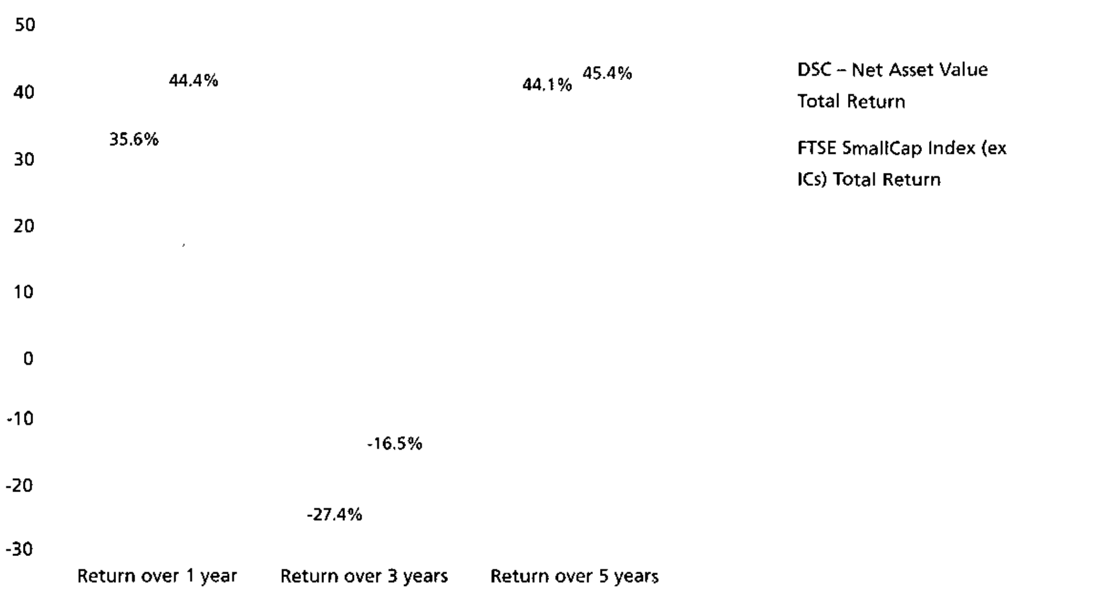
Company	Market Value £000	Sector Classification
Intermediate Capital Group	1,811	Speciality and other finance
Headlam	1,739	Housing goods and textiles
Topps Tiles	1,711	General retailers
HolidayBreak	1,548	Leisure and hotels
Paladin Resources	1,487	Oil and gas
Dairy Crest	1,441	Food producers and processors
Savills	1,343	Real estate
Wellington Holdings	1,331	Engineering and machinery
Pendragon	1,322	Automobiles & Parts
Belhaven	1,286	Leisure and hotels
Ten largest investments	15,019	16.8% of total assets less liabilities
French Connection	1,253	General retailers
BWD Securities	1,224	Speciality and other finance
Alexon	1,218	General retailers
TDG	1,216	Transport
SIG	1,189	Construction and building materials
Alvis	1,172	Aerospace and defence
Laird Group	1,150	Electronic and electrical equipment
ITNET	1,118	Software and computer services
Abacus	1,104	Electronic and electrical equipment
Morgan Sindall	1,097	Construction and building materials
Twenty largest investments	26,760	29.9% of total assets less liabilities
White Young Green	1,095	Support services
Ultra Electronics	1,071	Aerospace and defence
Ramco Energy	1,058	Oil and gas
Havelock Europa	1,052	Construction and building materials
Chloride	1,051	Electronic and electrical equipment
Systems Union	1,048	Software and computer services
Weir Group	1,033	Engineering and machinery
Dobbies Garden Centres	1,032	General retailers
Zotefoams	1,026	Chemicals
Synstar	1,025	Software and computer services
Thirty largest investments	37,251	41.6% of total assets less liabilities
Other investments represented by 67 holdings	37,158	41.5% of total assets less liabilities
Total value of investments	74,409	83.1% of total assets less liabilities
Net current assets	15,171	16.9% of total assets less liabilities
Total assets less current liabilities	89,580	100.0% of total assets less liabilities

Long Term Record

Year ended 31 October	Assets at valuation[1] £000	Preference stock and other borrowings £000	Equity shareholders' funds £000	Revenue available for ordinary dividends £000	Net asset value per share p	Earnings per share p	Dividends per share p	Share price p
1993	51,388	425	50,963	1,465	303.4	8.72	9.0	290.0
1994	57,933	5,000	52,933	1,506	315.1	8.96	9.0	306.0
1995	63,851	5,000	58,851	1,553	350.3	9.24	9.0	326.0
1996	72,614	5,000	67,714	1,602	402.5	9.54	9.0	346.0
1997	85,379	15,000	70,379	1,979	417.6	11.78	10.0	346.5
1998	75,136	15,000	60,136	2,463	356.6	14.67	11.9	292.0
1999	100,509	15,000	85,509	2,576	507.7	15.33	12.4	383.5
2000	127,708	15,000	112,708	2,510	673.7	14.97	12.9	520.0
2001	95,231	15,000	80,231	2,243	479.3	13.43	12.9	391.0
2002	72,224	15,000	57,224	1,647	344.7	9.92	12.9	264.0
2003	89,752	15,000	74,752	2,002	450.6	12.09	12.9	341.5

[1] Total assets less current liabilities plus borrowings

Comparison of NAV Total Return Performance of Dunedin Smaller Companies (DSC) to FTSE SmallCap Index (ex investment companies)



Source: Fundamental Data for the AITC

Investment Changes

	Valuation at 31 October 2002 £000	Net purchases (sales) £000	Appreciation (depreciation) £000	Valuation at 31 October 2003 £000
United Kingdom	56,296	(808)	18,889	74,377
Overseas	35	(3)	—	32
Total investments	56,331	(811)	18,889	74,409

Comparison of Market Capitalisation

at 31 October 2003

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

Analysis of Shareholders

at 31 October

% of ordinary shares held by shareholders

Corporate Information

Manager and Secretary and Registered Office
Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone: 0131-313 1000
Website: www.edfd.com
Authorised and regulated by the
Financial Services Authority

Registrar
Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Website: www.lloydstsb-registrars.co.uk
Telephone: 0870-601 5366

Banker
Bank of New York Limited

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

Company Broker
Cazenove & Co. Ltd

Company Registration Number
SC 14692

Board of Directors

The Earl of Dalhousie
Chairman
The Earl of Dalhousie (55), appointed on 1 November 1993, is a founder of Enskilda Securities and was a director of Capel-Cure Myers Capital Management. He is chairman of Jamestown Investments.

T J K Barnes
Director
T J K Barnes (42), appointed on 1 December 2003, is chief executive of Dobbies Garden Centres.

R M Entwistle
Director
R M Entwistle (59), appointed on 18 December 1998, is managing director of Adam & Company and is a fellow of the Chartered Institute of Bankers.

the board

M G N Walker
Director
M G N Walker CBE (70), appointed on 24 March 1982 , is chairman of Ivory & Sime UK Smaller Companies Trust. He was a director of Sidlaw Group and of Scottish Hydro Electric.

N M Yarrow
Director
N M Yarrow CA (43), appointed on 21 May 1998, is a director of Northern Venture Managers which was until December 2003 a subsidiary of Aberdeen Asset Management PLC.

All directors are members of the Audit and Management Engagement Committee

Business and Status

The company carries on business as an investment trust for the purpose of the Income and Corporation Taxes Act 1988 and has been approved as such by the Inland Revenue for the year ended 31 October 2002. The company has subsequently conducted its affairs so as to enable it to continue to seek such approval.

The company is an investment company within the terms of Section 266 of the Companies Act 1985.

Review of Activities

During the year the company followed the normal activities of an investment trust. Details of these are given in the Chairman's Statement and the Manager's Review.

Dividends

The directors recommend that a final dividend of 8.9p (2002–8.9p) is paid on 13 February 2004 to shareholders on the register on 16 January 2004. The ex-dividend date is 14 January 2004.

Status of Directors

In accordance with the articles of association, Mr Yarrow retires from the board by rotation and will be proposed for re-election at the annual general meeting.

Mr Walker will retire at the conclusion of the annual general meeting and will not be seeking re-election.

Mr Barnes was appointed to the board on 1 December 2003. The board considered a number of candidates against a set of criteria which included knowledge of smaller companies and financial expertise. In accordance with the articles of association, Mr Barnes will seek appointment at the annual general meeting.

The names of the directors and their holdings in the company's shares are shown in Table 1 opposite. The company has not been notified of any changes in the holdings between 31 October 2003 and 19 December 2003.

No contract or arrangement subsisted during the period in which any of the directors was materially interested. Mr Yarrow is an executive director of Northern Venture Managers which was a wholly-owned subsidiary of Aberdeen Asset Management PLC, the parent company of the manager and secretary to the company. No director had a service contract with the company.

Director's Liability Insurance

The company maintains insurance in respect of directors' and officers' liabilities in relation to their acts on behalf of the company.

Payments Policy

The company's payment policy is to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to business taking place.

Corporate Governance

Compliance

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

The board confirms that the company has complied throughout the accounting period with the provisions set out in Section 1 of the Code.

Directors

The Earl of Dalhousie and Messrs Barnes, Entwistle and Walker are considered by the board to be

	Ordinary 25p shares 31.10.03	31.10.02	Nature of interest
The Earl of Dalhousie	4,000	4,000	Beneficial
T J K Barnes	—	—	—
R M Entwistle	6,000	3,000	Beneficial
M G N Walker	2,000	2,000	Beneficial
N M Yarrow	4,000	4,000	Beneficial

Table 1 Directors and their holdings in the company

Directors' Report

independent of the company and the manager and free of any material relationship with the manager. Mr Yarrow is a director of Northern Venture Managers which was a wholly-owned subsidiary of Aberdeen Asset Management PLC.

Synopses of the board members appear on page 12 of the annual report. 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 Walker.

The board meets at least five 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.

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

Appointments to the board of directors are considered by the whole board. Possible new directors are identified against the requirements of the company's business and the need to have a balanced board. External search consultants may be used to ensure that a wide range of candidates can be considered. Every director is entitled to receive appropriate training as deemed necessary.

A director appointed during the year is required, under the provisions of the company's articles of association, to retire and seek election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting. In addition, all directors are required to submit themselves for re-election at least every three years.

Relations with shareholders

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

The notice of the annual general meeting included within the annual report and accounts is sent out at least 20 working days in advance of the meeting. All shareholders have the opportunity to put questions at the company's annual general meeting.

Proxy voting as an institutional shareholder

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

Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements appear on pages 16 and 19.

Internal control

The board confirms that as at 31 October 2003 there is an ongoing process for indentifying, evaluating and managing the company's significant business and operational risks, that it has been in place for the year ended 31 October 2003 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the board and accords with the internal control guidance for directors on the Combined Code.

The board has overall responsibility for ensuring that there is in place a system of internal control and for reviewing its effectiveness. Any system of internal control can only provide reasonable and not absolute assurance of meeting the internal control objectives. The internal control system is designed to manage rather than to eliminate the risk of failure to achieve business objectives. During the year the board has reviewed the effectiveness of the systems.

The manager is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the company and to manage its affairs properly. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the board and the manager and regular reports on controls and compliance issues are provided to the board. In carrying out its review, the board has had regard to the activities of the manager, the manager's compliance and risk function and the external auditors.

The directors have appointed an audit and management engagement committee, chaired by Mr Yarrow. The committee considers reports from the external auditors, as well as from the manager. The scope and effectiveness of the external audit is also kept under review. The independence and objectivity of the external auditors is also considered on a regular basis with particular regard to the level of non-audit fees.

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 investment manager's appointment, including an evaluation of performance and fees, are reviewed by the committee on an annual basis. The committee believes that the continuing appointment of the investment manager is in the interests of shareholders as a whole. The company benefits from the small and mid cap expertise of the manager's UK equity team of eight investment professionals including two dedicated smaller company portfolio managers. The committee also undertakes a review of the management fees in comparison to its peer group and believes that the company's current level of management fees is competitive. The management agreement is terminable on not less than three months' notice.

New combined code

In July 2003 the Financial Reporting Council issued a revised Combined Code which incorporates recommendations made by the Higgs Review and the Smith Report. These revisions will come into effect for reporting years beginning on or after 1 November 2003. The company is reviewing the revised Combined Code along with the recently published AITC Code of Corporate Governance and will be amending its corporate governance procedures where it considers it appropriate.

Going Concern

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Auditors

The company's auditors, KPMG Audit Plc, are willing to continue in office and resolutions will be proposed at the annual general meeting to re-appoint them and to authorise the directors to fix their remuneration.

Directors' Report

Substantial Share Interests

At 19 December 2003 the substantial interests in the ordinary share capital which had been notified to the company are shown in Table 2 below.

Holder	No of ordinary shares	%
Advance UK Trust plc	1,270,000	7.7
*Royal London Asset Management**	1,238,750	7.5
AXA Sun Life Investment Management	952,076	5.8
Aegon Asset Management UK plc	797,132	4.8
Derbyshire County Council	650,000	3.9
Legal & General Investment Management Ltd*	599,868	3.6
DC Thomson & Company Ltd	580,000	3.5

Table 2 Substantial share interests * non-beneficial interest

Annual General Meeting – Special Business

Resolutions relating to the following items of special business will be proposed at the forthcoming annual general meeting:-

(i) Directors' fees

That the maximum aggregate remuneration of the board of directors be increased to £60,000 per annum and that article 90 of the articles of association be read and construed accordingly.

The directors consider that the power proposed to be granted by the resolution described above is necessary to retain flexibility. The directors do not have any intention of increasing directors fees at the present time.

(ii) Purchase of the company's own ordinary shares

A special resolution will be proposed to authorise the company to make market purchases of its own shares. The maximum number of ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the company as at the date of the passing of the resolution (approximately 2.4 million ordinary shares). The minimum price which may be paid for an ordinary share shall be 25p. The maximum price for an ordinary share (exclusive of expenses) shall be an amount equal to 105% of the average of the middle market quotations for the company's ordinary shares for the five business days immediately preceding the date of purchase.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value and is in the best interests of shareholders generally.

By order of the board,

Edinburgh Fund Managers plc
Secretary
Edinburgh, 19 December 2003

Statement of Directors' Responsibilities

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

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

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

Directors' Remuneration Report

The board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time for this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming annual general meeting.

The law requires your company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 19.

Remuneration Committee

The company now has five non-executive directors as listed above. The board as a whole fulfils the function of a Remuneration Committee.

Policy on Directors' Fees

The board's policy is that the remuneration of non-executive directors should reflect the experience of the board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective. It is intended that this policy will continue for the year to October 2004 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.

The Earl of Dalhousie	1 November 1993	AGM 2006
T J K Barnes	1 December 2003	AGM 2004
R M Entwistle	18 December 1998	AGM 2005
M G N Walker	24 March 1982	N/A
N M Yarrow	21 May 1998	AGM 2004

Table 1 Directors' re-election dates

Directors' Service Contracts

No director has a service contract. The terms of their appointment provide that a director shall retire and be subject to re-election at the first annual general meeting after their appointment, and at least every three years after that. The terms also provide that a director may be removed without notice and that compensation will not be due on leaving office.

Total Shareholder Return

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

Total cumulative NAV return for the five year period ended 31 October 2003

Directors' Remuneration Report

Directors' Emoluments for the Year (audited)

The directors who served in the year received emoluments in the form of fees, as described in Table 2. These fees exclude employers' NI and any VAT payable.

	2003 £	2002 £
The Earl of Dalhousie	13,075	12,817
R M Entwistle	10,450	10,250
M G N Walker	10,450	10,250
N M Yarrow	10,450	10,250
	44,425	43,567

Table 2 Directors' fees (audited)

Approval

The Directors' Remuneration Report on pages 17 to 18 was approved by the board of directors on 19 December 2003 and signed on its behalf by:

By order of the board,
Edinburgh Fund Managers plc
Secretary

19 December 2003

Independent auditors' report to the members of Dunedin Smaller Companies Investment Trust plc

We have audited the financial statements on pages 20 to 30. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 16, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 13 to 15 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 31 October 2003 and of the total return for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Edinburgh, 19 December 2003

Statement of Total Return

for the year ended 31 October

	Notes	2003 Revenue £000	2003 Capital £000	2003 Total £000	2002 Revenue £000	2002 Capital £000	2002 Total £000
Realised losses on investments	14	—	(15,334)	(15,334)	—	(10,766)	(10,766)
Unrealised gains/(losses) on investments	15	—	34,223	34,223	—	(9,905)	(9,905)
Income from investments	2	2,098	—	2,098	1,933	—	1,933
Interest receivable on short term deposits		584	—	584	390	—	390
Other income		4	—	4	15	—	15
Investment management fee	3/14	(93)	(279)	(372)	(105)	(314)	(419)
Other administrative expenses	4	(274)	—	(274)	(270)	—	(270)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		2,319	18,610	20,929	1,963	(20,985)	(19,022)
Interest payable and similar charges	5	(317)	(949)	(1,266)	(316)	(949)	(1,265)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		2,002	17,661	19,663	1,647	(21,934)	(20,287)
Taxation	6	—	—	—	—	—	—
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		2,002	17,661	19,663	1,647	(21,934)	(20,287)
Dividends in respect of equity shares	7	(2,135)	—	(2,135)	(2,135)	—	(2,135)
		(133)	17,661	17,528	(488)	(21,934)	(22,422)
RETURN PER ORDINARY SHARE	8	12.09p	106.71p	118.80p	9.92p	(132.09p)	(122.17p)

The revenue column of this statement represents the revenue account of the company.
All revenue and capital items in the above statement derive from continuing operations.

Balance Sheet

at 31 October

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
FIXED ASSETS					
Investments	9		74,409		56,331
CURRENT ASSETS					
Debtors	10	1,204		408	
UK Treasury Bills		13,926		4,975	
AAA Money Market Funds		7,900		8,000	
Cash and short term deposits	20	1,335		4,693	
		24,365		18,076	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(9,194)		(2,365)	
NET CURRENT ASSETS			15,171		15,711
TOTAL ASSETS LESS CURRENT LIABILITIES			89,580		72,042
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	12		(14,828)		(14,818)
			74,752		57,224
CAPITAL AND RESERVES					
Called up share capital – equity	13		4,138		4,138
Capital reserve – realised	14		62,771		79,333
Capital reserve – unrealised	15		5,519		(28,704)
Capital redemption reserve	16		487		487
Revenue reserve	17		1,837		1,970
TOTAL EQUITY SHAREHOLDERS' FUNDS			74,752		57,224
NET ASSET VALUE PER ORDINARY 25P SHARE	22		450.63p		344.67p

The financial statements on pages 20 to 30 were approved by the board on 19 December 2003 and were signed *on its behalf by:*

THE EARL OF DALHOUSIE, Director Dalhousie

Cashflow Statement

for the year ended 31 October

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18		2,007		1,690
SERVICING OF FINANCE					
Interest paid		(1,256)		(1,256)	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(1,256)		(1,256)
TAXATION					
UK tax paid		—		—	
TOTAL TAX PAID			—		—
FINANCIAL INVESTMENT					
Purchase of investments		(17,179)		(32,502)	
Sale of investments		24,056		33,107	
NET CASH INFLOW FROM FINANCIAL INVESTMENT			6,877		605
EQUITY DIVIDENDS PAID			(2,135)		(2,148)
NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING			5,493		(1,109)
NET CASH OUTFLOW FROM MANAGEMENT OF LIQUID RESOURCES	21		(8,851)		(3,043)
FINANCING					
Buyback of ordinary shares			—		(585)
DECREASE IN CASH	20/21		(3,358)		(4,737)

1 Accounting policies

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

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

Expenses are charged to capital where they are incurred in connection with the maintenance or enhancement of the value of the 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.

(b) Investments – Listed investments are valued at market prices, foreign currencies being converted at the rates of exchange ruling at the relevant balance sheet date. Unlisted investments 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 differences on exchange are dealt with in the realised capital reserves. The capital element of the investment management fee along with the associated irrecoverable VAT and relevant finance costs are charged to this reserve. Any associated tax relief is credited to this reserve.

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

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

	2003 £000	2002 £000
2 Income from investments		
Dividends		
Franked investment income	2,098	1,933

Notes to the Accounts

	2003 £000	2002 £000
3 Investment management fee		
Investment management fee (including irrecoverable VAT)	372	419
Charged against capital reserve – realised	(279)	(314)
	93	105

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

In addition Edinburgh Fund Managers plc is entitled to a performance-related fee calculated quarterly in arrears, at a rate of 0.1% per annum (up to a maximum of 0.5% per annum) of the adjusted gross assets for every 1% by which the company's net asset value performance outperforms the capital performance of the FTSE SmallCap Index (ex investment companies) over the twelve month period. The investment management fee includes the performance related fee earned during the year of nil (2002–nil).

The management agreement between the company and Edinburgh Fund Managers plc is normally terminable by either party on 3 months' notice.

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

4 Administrative expenses		
Secretarial fees	58	57
Directors' fees	44	44
Investment trust initiative	27	40
Registrar's fees	34	26
Irrecoverable VAT	30	28
Other expenses	81	75
	274	270

The secretarial fee of £58,000 (2002–£57,000) is paid to Edinburgh Fund Managers plc. A contribution of £27,000 (2002–£40,000) was paid to Edinburgh Fund Managers plc in respect of marketing and promotion of the company through their Investment Trust Initiative.

The chairman who was the highest paid director received £13,075 (2002–£12,817). The emoluments of the other directors were £10,450 each (2002–£10,250).

Auditors' remuneration amounted to £6,350 (2002–£6,100). Remuneration paid to the auditors for other assurance services amounted to £1,625 (2002–£2,700).

	2003 £000	2002 £000
5 Interest payable and similar charges		
8.375% debenture stock interest	1,256	1,256
Amortised debenture stock premium and issue expenses	10	9
	1,266	1,265
Charged against capital reserve – realised	(949)	(949)
	317	316

6 Taxation

There is no liability to corporation tax for the year (2002–nil).

At the year end, the company has surplus management expenses and loan relationship losses of £10,463,000 (2002–£9,118,000) which are not recognised as a deferred tax asset. These have been generated because such a large part of the company's income is derived from dividends from UK companies. The company is not expected to generate taxable income in a future period in excess of deductible expenses for that period and, accordingly, is unlikely to be able to reduce future tax liabilities by offsetting these losses.

7 Dividends

Interim dividend of 4.0p (2002–4.0p) paid 27 June 2003	*662*	*662*
Final dividend of 8.9p (2002–8.9p) payable 13 February 2004	1,473	1,473
	2,135	2,135

8 Return per ordinary share

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

	2003	2002
Revenue return	£2,002,000	£1,647,000
Capital return	£17,661,000	(£21,934,000)
Weighted average number of ordinary shares in issue	16,550,000	16,605,479

	Listed in UK *£000*	Unlisted *£000*	Total *£000*
9 Investments			
Valuation at 31 October 2002	56,296	35	56,331
Unrealised depreciation at 31 October 2002	(28,739)	35	(28,704)
Book cost at 31 October 2002	85,035	—	85,035
Additions at cost	23,989	—	23,989
Sales proceeds	(24,797)	(3)	(24,800)
Realised net losses on sales	(15,337)	3	(15,334)
Book cost at 31 October 2003	68,890	—	68,890
Unrealised appreciation at 31 October 2003	5,487	32	5,519
Valuation at 31 October 2003	74,377	32	74,409

Notes to the Accounts

	2003 £000	2002 £000
10 Debtors		
Accrued income	290	238
Amounts due from brokers	914	104
Other debtors	—	66
	1,204	408

11 Creditors: amounts falling due within one year

Amounts due to brokers	6,959	149
Debenture interest	611	611
Management fee	90	72
Other creditors	61	60
Final dividend	1,473	1,473
	9,194	2,365

12 Creditors: amounts falling due after one year

Repayable after more than 5 years:		
8.375% debenture stock 2022	15,000	15,000
Unamortised debenture stock premium and issue expenses	(172)	(182)
	14,828	14,818

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

The market value of the debenture stock as at 31 October 2003 was £17,072,500 (2002–£18,562,500). The effect on the net asset value of deducting the debenture stock at market value rather than at par is disclosed in note 22.

13 Called up share capital

Authorised:		
20,800,000 (2002–20,800,000) ordinary shares of 25p each	5,200	5,200
Issued and fully paid:		
16,550,000 (2002–16,550,000) ordinary shares of 25p each	4,138	4,138

14 Capital reserve – realised

	2003 £000	2002 £000
Balance at 31 October 2002	79,333	91,947
Realised net loss on investments	(15,334)	(10,766)
Debenture stock interest	(942)	(942)
Amortised debenture stock premium and issue expenses	(7)	(7)
Management fee	(279)	(314)
Cost of ordinary shares repurchased	—	(585)
Balance at 31 October 2003	62,771	79,333

15 Capital reserve – unrealised

	2003 £000	2002 £000
Balance at 31 October 2002	(28,704)	(18,799)
Increase/(decrease) on revaluation of investments	34,223	(9,905)
Balance at 31 October 2003	5,519	(28,704)

16 Capital redemption reserve

	2003 £000	2002 £000
Balance at 31 October 2002	487	450
Transfer from called up share capital arising from the buy back of ordinary shares	—	37
Balance at 31 October 2003	487	487

17 Revenue reserve

	2003 £000	2002 £000
Balance at 31 October 2002	1,970	2,458
Transferred from revenue account	(133)	(488)
Balance at 31 October 2003	1,837	1,970

This represents the only reserve from which dividends can be funded.

18 Reconciliation of net revenue before finance costs and taxation to *net cash inflow from operating activities*

	2003 £000	2002 £000
Revenue before interest and taxation	2,319	1,963
(Increase)/decrease in accrued income	(52)	72
Decrease in other debtors	—	8
Increase/(decrease) in creditors	19	(39)
Management fee charged to capital	(279)	(314)
	2,007	1,690

Notes to the Accounts

19 Analysis of changes in financing during the year

	2003 Equity share capital £000	2003 Debentures & loans £000	2002 Equity share capital £000	2002 Debentures & loans £000
Balance at 31 October 2002	4,138	14,818	4,175	14,809
Share buybacks	—	—	(37)	—
Amortisation of premium and expenses of issue	—	10	—	9
Balance at 31 October 2003	4,138	14,828	4,138	14,818

20 Analysis of changes in cash during the year

	2003 £000	2002 £000
Balance at 31 October 2002	4,693	9,430
Net cash outflow	(3,358)	(4,737)
Balance at 31 October 2003	1,335	4,693

21 Analysis of changes in net funds

	Balance at 31 October 2002 £000	Cash flows £000	Amortisation of issue expenses and premium £000	Balance at 31 October 2003 £000
Cash and short term deposits	4,693	(3,358)	—	1,335
UK Treasury Bills	4,975	8,951	—	13,926
AAA Money Market Funds	8,000	(100)	—	7,900
Debt due after more than one year	(14,818)	—	(10)	(14,828)
Net funds	2,850	5,493	(10)	8,333

22 Net asset value per share

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

	2003	2002
Total shareholders' funds	£74,752,000	£57,224,000
Adjusted net assets	£74,580,000	£57,042,000
Number of equity shares in issue at year end	16,550,000	16,550,000
Total shareholders' funds per share	451.67p	345.77p
Less: Unamortised debenture stock premium and issue expenses	(1.04p)	(1.10p)
Adjusted net asset value per share	450.63p	344.67p

	2003 £000	2002 £000
The movements during the year of the assets attributable to the ordinary shares were as follows:		
Adjusted net assets at 31 October 2002	57,042	80,040
Total recognised capital gains/(losses) for the year	17,661	(21,934)
Revenue return for the year	2,002	1,647
Dividends appropriated in the year	(2,135)	(2,135)
Movement in unamortised debenture stock premium and issue expenses	10	9
Share buybacks	—	(585)
Adjusted net assets at 31 October 2003	74,580	57,042

The net asset value adjusted to include the debenture stocks at a market value of £17,072,000 (2002–£18,562,500) rather than at par is 438.12p (2002–323.15p).

23 Reconciliation of movement in equity shareholders' funds

Equity shareholders' funds at 31 October 2002	57,224	80,231
Total recognised capital gains/(losses) for the year	17,661	(21,934)
Net revenue for the year	(133)	(488)
Share buybacks	—	(585)
Equity shareholders' funds at 31 October 2003	74,752	57,224

24 Commitments and contingencies

There are no placing commitments at 31 October 2003 (2002–nil).

25 *Risk management, financial assets and liabilities*

Risk management

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

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

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

Financial assets and liabilities

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

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

List of Investments

at 31 October 2003

		£000
Resources		
Oil & Gas		
1,616,013	Paladin Resources	1,487
320,500	Ramco Energy	1,058
		2,545
Basic industries		
Chemicals		
1,086,100	Zotefoams	1,026
243,000	Victrex	866
632,199	Delta	607
Construction & Building Materials		
358,674	SIG	1,189
302,934	Morgan Sindall	1,097
1,216,000	Havelock Europa	1,052
526,055	Mowlem	1,021
166,117	Bellway	1,017
162,000	BSS	919
520,000	Novar	689
230,000	Marshalls	597
173,217	Ultraframe	420
509,390	Low & Bonar	418
521,171	Ennstone	198
		11,116
General industrials		
Aerospace & Defence		
625,000	Alvis	1,172
207,000	Ultra Electronics	1,071
92,142	Umeco	288
Electronic & Electrical Equipment		
417,404	Laird Group	1,150
468,000	Abacus	1,104
2,309,001	Chloride	1,051
451,629	Oxford Instruments	790
240,888	Roxboro	556
100,000	Spectris	454
3,600	Leach International (USA)	32
Engineering & Machinery		
1,250,000	Wellington Holdings	1,331
368,900	Weir Group	1,033
922,908	Fenner	748
		10,780
Cyclical consumer goods		
Automobiles & Parts		
609,250	Pendragon	1,322
451,200	European Motor Holdings	776
Household Goods & Textiles		
539,248	Headlam	1,739
		3,837

		£000
Non cyclical consumer goods		
Food Producers & Processors		
303,000	Dairy Crest	1,441
310,625	Robert Wiseman Dairies	815
Health		
362,269	Care UK	857
697,176	Patientline	505
324,200	Gooch & Housego	407
Pharmaceuticals		
620,000	Dechra Pharmaceuticals	701
		4,726
Cyclical services		
General Retailers		
367,100	Topps Tiles	1,711
63,500	French Connection	1,253
362,000	Alexon	1,218
239,960	Dobbies Garden Centres	1,032
Leisure & Hotels		
273,922	Holidaybreak	1,548
296,057	Belhaven	1,286
492,000	Georgica	391
2,366,100	Sportech	384
Media & Entertainment		
795,000	Incepta	994
218,000	Ulster Television	855
505,807	Incisive Media	531
283,500	Epic	281
73,703	Hit Entertainment	202
197,000	Television Corporation	153
95,000	Wilmington	97
471,250	Sterling Publishing	68
Support Services		
600,000	White Young Green	1,095
752,900	Robert Walters	915
228,259	John Menzies	776
237,000	British Polythene Industries	717
221,438	BPP	698
247,663	AEA Technology	685
220,500	Interserve	596
260,000	Mouchel Parkman	576
200,246	Whitehead Mann	566
630,000	Mentmore	551
104,068	BTG	432
246,800	RPS Group	413
972,115	Quantica	408
260,417	Peterhouse	306
130,731	Aggreko	207
Transport		
602,000	TDG	1,216
90,100	Forth Ports	953
		23,114

List of Investments–contd

at 31 October 2003

		£000
Non cyclical services		
Food & Drug Retailers		
13,750	Greggs	452
Telecommunication Services		
2,058,670	Thus	664
		1,116
Financials		
Insurance		
1,050,370	Wellington Underwriting	835
675,438	Cox Insurance	550
248,602	Amlin	360
Investment Companies		
53,000	Candover Investment Trust	680
Real Estate		
554,000	Savills	1,343
258,553	Freeport	1,019
650,000	London Merchant Securities	1,011
118,642	Helical Bar	887
303,721	Unite	472
100,000	Quintain Estates & Developments	322
42,881	Derwent Valley	287
Speciality & Other Finance		
176,038	Intermediate Capital Group	1,811
244,800	BWD Securities	1,224
489,321	London Scottish Bank	617
1,560,000	Rutland Trust	554
		11,972
Information technology		
Information Technology Hardware		
291,871	Imagination Technology	207
Software & Computer Services		
357,739	ITNET	1,118
900,000	Systems Union	1,048
1,518,680	Synstar	1,025
107,577	Detica	580
962,378	Diagonal	529
571,389	Microgen	263
342,165	AIT	255
700,000	Planit Holdings	178
		5,203
Total Equities		74,409

Notice of Meeting

Notice is hereby given that the seventy sixth annual general meeting of Dunedin Smaller Companies Investment Trust plc will be held at Donaldson House, 97 Haymarket Terrace, Edinburgh on Thursday 12 February 2004 at 12 noon, for the following purposes:

ORDINARY BUSINESS

1. To receive the reports of the directors and auditors and the accounts for the year ended 31 October 2003;
2. To approve the directors' remuneration report for the year ended 31 October 2003;
3. To propose a final dividend of 8.9p on the ordinary shares;
4. To appoint Mr James Barnes as a director of the company;
5. To re-elect Mr Norman Yarrow as a director of the company;
6. To re-appoint KPMG Audit Plc as auditors of the company;
7. To authorise the directors to fix the remuneration of the auditors for the year to 31 October 2004.

SPECIAL BUSINESS

To consider and, if thought fit, to pass Resolution 8 as an ordinary resolution and Resolution 9 as a special resolution.

Ordinary resolution

8. That the maximum aggregate remuneration of the board of directors be increased to £60,000 per annum and that article 90 of the articles of association be read and construed accordingly.

Special resolution

9. That in substitution for any existing authority, the company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163 (3) of the Act) of ordinary shares of 25p each in the company ('shares') provided that:

   (i) the maximum number of shares hereby authorised to be purchased is 14.99% of the issued share capital of the company as at the date of the passing of this resolution;

   (ii) the minimum price which may be paid for a share shall be 25p;

   (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and

   (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company to be held in 2005 save that the company may, prior to such expiry, enter into a contract or contracts to purchase shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By order of the board

Edinburgh Fund Managers plc
Secretary

5 January 2004

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

Notice of Meeting

Notes:

1. A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the company.

2. A form of proxy for use by shareholders is enclosed with these accounts. Completion and return of the form of proxy will not prevent any shareholder from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any Power of Attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy of such power or authority at the address stated thereon, so as to be received not less than 48 hours before the time of the meeting.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that only those shareholders entered on the register of members of the company as at 6.00pm on 10 February 2004 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the register of members after 6.00pm on 10 February 2004 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the company or other instrument to the contrary.

4. There are special arrangements for holders of shares through The Edinburgh Fund Managers Investment Trust Savings Plan, Investment Trust PEP/ISA and Investment Trust Pension. These are explained in the 'Letter of Direction' which such holders will have received with this report.

Financial Calendar

Announcements and the issue of the annual and interim reports may normally be expected in the following months:

December – Preliminary results for year and recommended final dividend for year announced.

January – Annual report and accounts published.

February – Annual General Meeting and final dividend paid.

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

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

Information for Investors

INVESTMENT TRUSTS

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

HOW TO INVEST

Ordinary Shares

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

PRODUCT DETAILS

InvestIT – The Edinburgh Fund Managers Investment Trust Savings Plan

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

Edinburgh Fund Managers Investment Trust ISA/PEP

ISA

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

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

PEP

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

The Edinburgh Fund Managers Investment Trust Pension

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

Note

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

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

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

Keeping you Informed

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

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

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

For information concerning your shareholding, please contact:

Registrar

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Telephone: 0870-601 5366
Text Phone: 0870-600 3950
Website: www.shareview.co.uk

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

Shareholder Relations

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone: 0131-313 1000
or **FREE** on 0800-028 6789 (24 hours)

InvestIT Administrator

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

Individual Savings Account/Personal Equity Plan Administrator

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

Pension Administrator

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

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