

08

Dunedin Smaller Companies Investment Trust PLC

Interim Report

For the 6 months ended 30 April 2008



Contents

1	Highlights and Financial Calendar
2	Chairman's Statement
4	Investment Portfolio
6	Distribution of Assets
7	Income Statement
8	Balance Sheet
9	Reconciliation of Movements in Shareholders' Funds
10	Cash Flow Statement
11	Notes to the Accounts
14	Independent Review Report to Dunedin Smaller Companies Investment Trust PLC
15	How to Invest in Dunedin Smaller Companies Investment Trust PLC
17	Corporate Information

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Ordinary shares in Dunedin Smaller Companies Investment Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Highlights and Financial Calendar

Financial Highlights

	30 April 2008	31 October 2007	% Change
Total assets (£'000)	76,613	92,364	-17.1
Total shareholders' funds (£'000)	66,613	82,364	-19.1
Net asset value per Ordinary share	138.3p	167.0p	-17.2
Share price per Ordinary share (mid)	117.3p	142.5p	-17.7
Discount to net asset value	15.2%	14.7%	

Performance (total return)

	Six months ended 30 April 2008	Year ended 31 October 2007
Net asset value per Ordinary share	-15.6%	+6.2%
Share price per Ordinary share	-15.8%	+1.5%
FTSE SmallCap Index (ex IC's)	-21.8%	+4.6%

Financial Calendar

30 June 2008	Announcement of unaudited interim results for the six months ended 30 April 2008
July 2008	Half Yearly Report posted to Shareholders
December 2008	Announcement of results for the year ending 31 October 2008
December 2008	Annual Report posted to Shareholders
February 2009	Annual General Meeting

Chairman's Statement

The period under review was characterised by a sudden and marked reduction in investor confidence. This was driven by the crisis in the US sub-prime mortgage market which led to significant losses for many financial institutions and a widespread reduction in the availability of credit. Equity markets fell sharply and the Bank of England, the US Federal Reserve and European Central Bank took steps to inject liquidity into the banking sector to head-off a liquidity crisis. Interest rates in the UK were reduced on three occasions taking base rates down to 5.0%.

As investors became much more risk averse, the share prices of smaller companies fell sharply both in absolute terms and in relation to the broader equity markets. The Company's net asset value per share fell by 17.2% compared to falls of 22.9% in the FTSE SmallCap Index (excluding Investment Companies) and 9.4% in the FTSE 100 Index on a capital return basis. The Company's share price fell by 17.7% to 117.25p. The subscription shares which are listed on the London Stock Exchange had a closing price of 9.00p per share at 30 April 2008.

However, revenue return per share for the period increased from 1.86p to 2.25p and the Board is pleased to announce an increase in the interim dividend of 5.7% to 1.85p which will be paid on 25 July 2008 to shareholders on the register on 11 July 2008.

During the six month period, the Company repurchased 1,157,500 Ordinary shares, at a total cost of £1.3 million and at discounts to NAV between 13% and 24%. From 1 May to 30 June 2008 a further 75,000 Ordinary shares were bought back. The Board is conscious of its commitment to maintain the discount at not more than 7.5%. However, this has proved very difficult to maintain in the current market conditions and the volatility referred to above had led to a sharp de-rating of smaller company investment trusts, including your Company's shares, during the period. The Directors will continue to monitor the Company's discount with that of its peer group and will use the Company's share buyback powers, subject to market conditions, to achieve its discount targets in the medium to longer term.

Our investment portfolio has continued to out-perform the benchmark by over 4 per cent. The portfolio is constructed to deliver both capital and income growth and we remain focused on identifying good quality companies run by strong management teams, particularly where an above-average dividend yield is available. As a general rule, we do not invest in loss-making businesses which may be high-risk and carry a material chance of failure. This strategy has again been beneficial to performance.

Global equity markets are currently very volatile. The reasons for this are the crisis in the US sub-prime mortgage market

which is in turn causing turmoil in the credit markets. Investors are also concerned about the outlook for the US economy where the deterioration in the housing market and higher energy prices are affecting consumer confidence. Recent employment data suggest a slowing economy.

The UK economy is also facing slower growth and higher inflation in the year ahead. This will undoubtedly have a negative impact on corporate profitability. More positively, equity markets are not expensive by historic standards and expectations for growth in smaller company profitability are above those for larger companies. Valuations are now more favourable following the recent under-performance of the smaller company sector. An improvement in investor confidence is required however before the smaller company sector returns to favour.

VAT on Management Fees

In 2004, the Association of Investment Companies (AIC) and JPM Claverhouse Investment Trust plc launched a case against HM Revenue & Customs (HMRC) in which they claimed that management fees charged to UK investment trusts should be exempt from VAT. On 28 June 2007, the European Court of Justice found in favour of the AIC/Claverhouse case in respect of the specific questions referred to it by the UK VAT Tribunal. HMRC accepted this judgement in November. Your Board has taken appropriate steps to the reclaim the relevant VAT that has been paid on management fees and is currently in discussion with the Manager on this issue. As yet we have not recognised any asset in the financial statements as the amounts are not yet quantifiable. A rebate will be due to the Company and we should be in a clearer position by the time of the annual results to update shareholders accordingly.

Risks and Uncertainties

The Board has identified a number of key risks that affect its business. The principal risks are as follows:

- Resource risk – the Company is an investment trust and has no employees. It relies on services provided by third parties, including in particular, the Manager, to whom responsibility for the management of the Company has been delegated under an investment management agreement (the "Agreement"). The terms of the Agreement cover the scope of the duties and obligations expected of the Manager. The Board reviews the performance of the Manager on a regular basis, and their compliance with the Agreement formally on an annual basis.
- Market risk – market risk arises from valuations accorded to equities, changes in interest rates, 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.

-
- Investment policy and Performance risk – the Board keeps under review the investment policy of the Company, taking account of stockmarket factors and compares the Company's performance to the benchmark (FTSE SmallCap Index (ex Investment Companies) and the underlying stock weightings in the portfolio against their Index weightings are monitored closely by the Board.
 - Gearing risk – it is the Company's policy to increase its exposure to equity market price risk through the judicious use of borrowings. When borrowed funds are invested in equities, the effect is to magnify the impact on shareholders' funds of changes – both positive and negative – in the value of the portfolio. The Board regulates the overall level of gearing by raising or lowering cash balances and is also able, if the circumstances warrant, to purchase fixed interest securities to offset gearing. The maximum borrowing facility is £15 million.
 - Discount volatility – the Company's shares can trade at a discount to its underlying net asset value. The Company operates a share buyback programme which is reviewed on an ongoing basis.
 - Regulatory risk – the Company operates in a complex regulatory environment and faces a number of regulatory risks. Breaches of regulations, such as Section 842 of the Income and Corporation Taxes Act 1988, the UK Listing Rules and the Companies Act, could lead to a number of detrimental outcomes and reputational damage. The Audit Committee monitors compliance with regulation by reviewing internal control reports from the Manager.

The half-yearly financial report for the six months to 30 April 2008 comprises the Interim Board Report, the Directors' Responsibility Statement and a condensed set of financial statements. The Independent Review Report of the Auditors is contained on page 14.

The Earl of Dalhousie

Chairman

30 June 2008

Directors' Responsibility Statement

The Directors are responsible for preparing the half-yearly financial report in accordance with applicable law and regulations. The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements within the half-yearly financial report has been prepared in accordance with the statement "Half-Yearly Financial Reports" issued by the UK Accounting Standards Board;
- the Chairman's Statement (constituting the interim management report) includes a fair review of the information required by rule 4.2.7R of the Disclosure and Transparency Rules (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year) and 4.2.8R (being related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position of the Company during that period; and any changes in the related party transactions described in the last annual report that could so do.)

Investment Portfolio

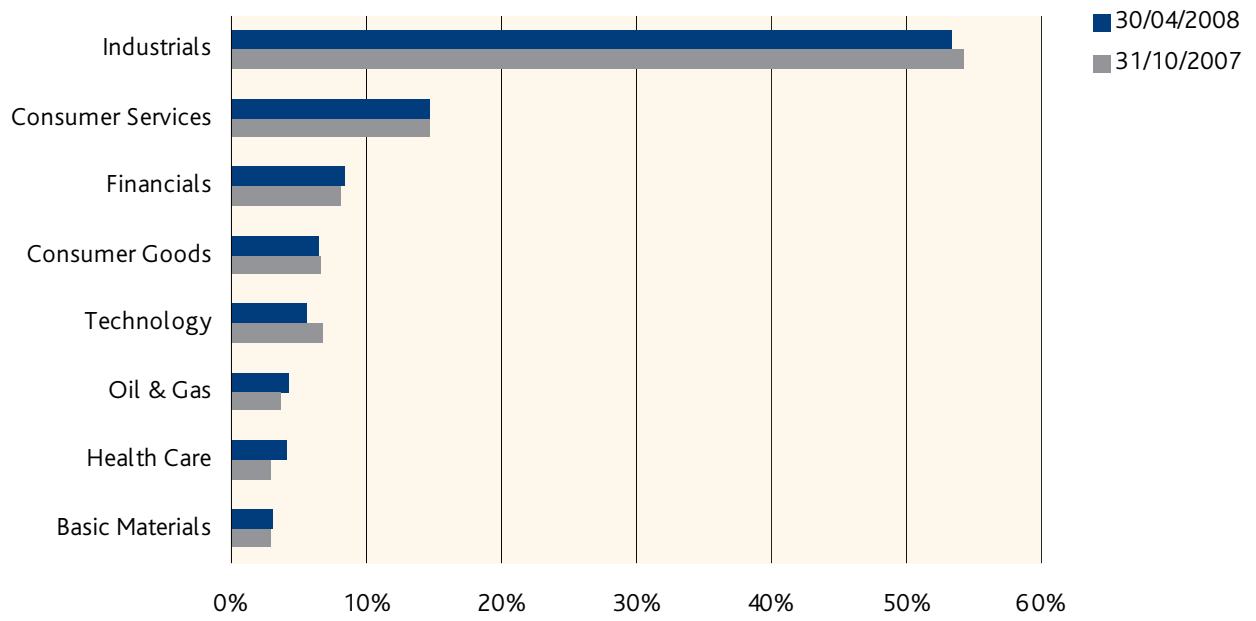
As at 30 April 2008

Company	Sector	Market value	Total assets
		£'000	%
Dechra Pharmaceuticals	Pharmaceuticals & Biotechnology	1,954	2.6
Chloride	Electronic & Electrical Equipment	1,872	2.4
Menzies (John)	Support Services	1,820	2.4
Chemring Group	Aerospace & Defence	1,774	2.3
Ultra Electronics	Aerospace & Defence	1,716	2.3
Fenner	Industrial Engineering	1,701	2.2
BPP	Support Services	1,628	2.1
Laird	Electronic & Electrical Equipment	1,558	2.0
Morgan Sindall	Construction & Materials	1,493	1.9
Expro International	Oil Equipment Services & Distribution	1,472	1.9
Ten largest investments		16,988	22.1
Intermediate Capital Group	Financial Services	1,437	1.9
British Polythene Industries	General Industrials	1,389	1.8
TDG	Industrial Transportation	1,333	1.7
Venture Production	Oil & Gas Producers	1,332	1.7
BSS Group	Support Services	1,318	1.7
Mouchel Parkman	Support Services	1,274	1.7
The Restaurant Group	Travel & Leisure	1,270	1.7
Low & Bonar	Construction & Materials	1,262	1.7
Brammer	Support Services	1,251	1.6
Wilmington Group	Media	1,239	1.6
Twenty largest investments		30,093	39.2
Holidaybreak	Travel & Leisure	1,218	1.6
Victrex	Chemicals	1,210	1.6
Mothercare	General Retailers	1,204	1.6
Savills	Real Estate Investment Services	1,184	1.5
SIG	Support Services	1,136	1.5
RM	Software & Computer Services	1,120	1.5
Huntsworth	Media	1,120	1.5
Numis Corporation	Financial Services	1,104	1.4
Interserve	Support Services	1,067	1.4
Bloomsbury Publishing	Media	1,049	1.4
Thirty largest investments		41,505	54.2
Clarke (T)	Construction & Materials	1,041	1.4
Ennstone	Construction & Materials	1,036	1.3
TT Electronics	Electronic & Electrical Equipment	995	1.3
Unite Group	Real Estate Investment Services	984	1.3
XP Power	Electronic & Electrical Equipment	948	1.2
Management Consulting Group	Support Services	926	1.2
Aveva	Software & Computer Services	903	1.2
McBride	Household Goods	895	1.2
RPC Group	General Industrials	895	1.2
Robert Walters	Support Services	885	1.2
Forty largest investments		51,013	66.7

Company	Sector	Market value	Total assets
		£'000	%
Zotefoams	Chemicals	884	1.2
Weir Group	Industrial Engineering	882	1.2
Fuller Smith & Turner 'A'	Travel & Leisure	881	1.1
White Young Green	Support Services	879	1.1
Headlam Group	Household Goods	863	1.1
Hornby	Leisure Goods	820	1.1
Detica Group	Software & Computer Services	808	1.0
Umeco	Aerospace & Defence	796	1.0
Rensburg Sheppards	Financial Services	793	1.0
Acal	Support Services	771	1.0
Fifty largest investments		59,390	77.5
Barr (AG)	Beverages	736	1.0
Care UK	Health Care Equipment & Services	733	1.0
Forth Ports	Industrial Transportation	729	1.0
Anite Group	Software & Computer Services	651	0.8
Greggs	Food & Drug Retailers	635	0.7
Bellway	Household Goods	504	0.7
Oxford Instruments	Electronic & Electrical Equipment	502	0.7
UTV Media	Media	500	0.7
Havelock Europa	Household Goods	436	0.5
Topps Tiles	General Retailers	291	0.4
Sixty largest investments		65,107	85.0
Pendragon	General Retailers	266	0.3
Avon Rubber	General Industrials	264	0.3
Alphameric	Software & Computer Services	206	0.3
Total investments		65,843	85.9
Net current assets ^A		10,770	14.1
Total assets		76,613	100.0

^A Excludes bank loan of £10,000,000.

Distribution of Assets



Income Statement

	Six months ended 30 April 2008 (unaudited)			Six months ended 30 April 2007 (unaudited)			Year ended 31 October 2007 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	–	(13,795)	(13,795)	–	15,436	15,436	–	7,558	7,558
Income from investments	1,121	–	1,121	1,121	–	1,121	2,569	–	2,569
Interest on AAA rated Money Market funds	34	–	34	132	–	132	223	–	223
Interest on deposits	95	–	95	34	–	34	58	–	58
Interest on Treasury Bills	137	–	137	149	–	149	260	–	260
Underwriting commission	1	–	1	–	–	–	4	–	4
Investment management fee	(37)	(280)	(317)	(60)	(361)	(421)	(111)	(566)	(677)
Administrative expenses	(181)	–	(181)	(174)	–	(174)	(376)	–	(376)
Net return before finance costs and taxation	1,170	(14,075)	(12,905)	1,202	15,075	16,277	2,627	6,992	9,619
Finance costs	(79)	(234)	(313)	(113)	(6,801)	(6,914)	(195)	(7,045)	(7,240)
Return on ordinary activities before and after taxation	1,091	(14,309)	(13,218)	1,089	8,274	9,363	2,432	(53)	2,379
Return per Ordinary share (pence)	2.25	(29.55)	(27.30)	1.86	14.11	15.97	4.47	(0.10)	4.37

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

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

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

Balance Sheet

	As at 30 April 2008 (unaudited) £'000	As at 30 April 2007 (unaudited) £'000	As at 31 October 2007 (audited) £'000
Non-current assets			
Investments at fair value through profit or loss	65,843	97,134	82,931
Current assets			
Loans and receivables	615	629	307
UK Treasury Bills	–	2,769	4,963
AAA Money Market funds	–	2,150	4,350
Cash and short term deposits	10,481	272	386
	11,096	5,820	10,006
Creditors: amounts falling due within one year			
Bank loan	(10,000)	(10,000)	(10,000)
Other creditors	(326)	(281)	(573)
	(10,326)	(10,281)	(10,573)
Net current assets/(liabilities)	770	(4,461)	(567)
Net assets	66,613	92,673	82,364
Capital and reserves			
Called-up share capital	2,409	2,549	2,466
Share premium account	24	19	19
Capital redemption reserve	2,217	2,077	2,160
Capital reserve – realised	59,340	41,675	43,435
Capital reserve – unrealised	(1,671)	42,399	29,872
Revenue reserve	4,294	3,954	4,412
Equity shareholders' funds	66,613	92,673	82,364
Adjusted net asset value per Ordinary share (pence)	138.28	181.77	166.97

Reconciliation of Movements in Shareholders' Funds

Six months ended 30 April 2008 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2007	2,466	19	2,160	43,435	29,872	4,412	82,364
Reclassification of reserves ^A	–	–	–	23,541	(23,541)	–	–
Issue of subscription shares	–	5	–	–	–	–	5
Purchase of own shares	(57)	–	57	(1,329)	–	–	(1,329)
Return on ordinary activities after taxation	–	–	–	(6,307)	(8,002)	1,091	(13,218)
Dividends paid ^B	–	–	–	–	–	(1,209)	(1,209)
Balance at 30 April 2008	2,409	24	2,217	59,340	(1,671)	4,294	66,613

^A With effect from 1 November 2007, changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms, are recognised within capital reserve – realised rather than capital reserve – unrealised. This change has been enacted through a transfer between the reserves as at 1 November 2007.

Six months ended 30 April 2007 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2006	4,068	–	557	76,606	45,555	4,611	131,397
Issue of subscription shares	1	19	–	–	–	–	20
Corporate restructuring costs	–	–	–	(595)	–	–	(595)
Purchase of own shares	(1,520)	–	1,520	(45,766)	–	–	(45,766)
Return on ordinary activities after taxation	–	–	–	11,430	(3,156)	1,089	9,363
Dividends paid ^B	–	–	–	–	–	(1,746)	(1,746)
Balance at 30 April 2007	2,549	19	2,077	41,675	42,399	3,954	92,673

Year ended 31 October 2007 (audited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 October 2006	4,068	–	557	76,606	45,555	4,611	131,397
Issue of subscription shares	1	19	–	–	–	–	20
Corporate restructuring costs	–	–	–	(595)	–	–	(595)
Purchase of own shares	(1,603)	–	1,603	(48,206)	–	–	(48,206)
Return on ordinary activities after taxation	–	–	–	15,630	(15,683)	2,432	2,379
Dividends paid ^B	–	–	–	–	–	(2,631)	(2,631)
Balance at 31 October 2007	2,466	19	2,160	43,435	29,872	4,412	82,364

^B See Note 2.

Cash Flow Statement

	Six months ended 30 April 2008 (unaudited) £'000	Six months ended 30 April 2007 (unaudited) £'000	Year ended 31 October 2007 (audited) £'000
Net cash inflow from operating activities	609	349	1,813
Net cash outflow from servicing of finance	(314)	(934)	(1,250)
Net cash inflow from financial investment	3,020	34,974	41,515
Equity dividends paid	(1,209)	(1,746)	(2,631)
Net cash inflow before use of liquid resources and financing	2,106	32,643	39,447
Net cash inflow from management of liquid resources	9,313	25,060	20,666
Net cash outflow from financing	(1,324)	(57,798)	(60,094)
Increase/(decrease) in cash	10,095	(95)	19
Reconciliation of net cash flow to movements in net funds			
Increase/(decrease) in cash as above	10,095	(95)	19
Net change in liquid resources	(9,313)	(25,060)	(20,666)
Change in net funds resulting from cash flows	782	(25,155)	(20,647)
Repayment of Debenture Stock	–	15,000	15,000
Drawdown of loan	–	(10,000)	(10,000)
Amortised Debenture Stock expenses	–	(144)	(144)
Movement in net funds in the period	782	(20,299)	(15,791)
Opening net funds/(debt)	(301)	15,490	15,490
Closing net funds/(debt)	481	(4,809)	(301)
Represented by:			
Cash and cash equivalents	10,481	5,191	9,699
Debt due within one year	(10,000)	(10,000)	(10,000)
	481	(4,809)	(301)

Notes to the Accounts

1. Accounting policies

(a) Basis of preparation and going concern

The accounts have been prepared under the historical cost convention, as modified to include the revaluation of investments and in accordance with applicable UK Accounting Standards and with the Statement of Recommended Practice for 'Financial Statements of Investment Trust Companies' (issued in 2003 and revised in December 2005). They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

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

The interim accounts have been prepared using the same accounting policies as the preceding annual accounts.

(b) Investments

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

(c) Dividends payable

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

2. Dividends	Six months ended 30 April 2008 £'000	Six months ended 30 April 2007 £'000	Year ended 31 October 2007 £'000
Amounts recognised as distributions to equity holders in the period:			
Second interim dividend for 2006 – 1.07p	–	871	871
Interim dividend for 2007 – 1.75p	–	–	885
Final dividend for 2007 – 2.50p (2006 – 1.55p)	1,209	875	875
Dividends paid in the period	1,209	1,746	2,631

An interim dividend of 1.85p for the year to 31 October 2008 will be paid on 25 July 2008 to Shareholders on the register on 11 July 2008. The ex-dividend date is 9 July 2008.

The table below sets out the interim dividend payable in respect of the six months ended 30 April 2008. The revenue available for distribution by way of dividend for the period is £1,091,000 (2007 – £1,089,000).

	Six months ended 30 April 2008 £'000	Six months ended 30 April 2007 £'000
Interim dividend payable for 2008 – 1.85p (2007 – 1.75p)	891	885

Notes to the Accounts continued

	Six months ended 30 April 2008	Six months ended 30 April 2007	Year ended 31 October 2007
	P	P	P
3. Return per share			
Revenue return	2.25	1.86	4.47
Capital return	(29.55)	14.11	(0.10)
Total return	(27.30)	15.97	4.37

The figures above are based on the following attributable revenues:

	Six months ended 30 April 2008	Six months ended 30 April 2007	Year ended 31 October 2007
	£'000	£'000	£'000
Revenue return	1,091	1,089	2,432
Capital return	(14,309)	8,274	(53)
Total return	(13,218)	9,363	2,379
Weighted average number of Ordinary shares in issue	48,421,194	58,620,232	54,391,540

4. Transaction costs

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

	Six months ended 30 April 2008	Six months ended 30 April 2007	Year ended 31 October 2007
	£'000	£'000	£'000
Purchases	18	30	63
Sales	6	40	48
	24	70	111

5. Net asset value	As at 30 April 2008	As at 30 April 2007	As at 31 October 2007
The net assets attributable to the Ordinary Shareholders were as follows:			
Net assets attributable (£'000)	66,613	92,673	82,364
Number of Ordinary shares in issue	48,172,573	50,984,877	49,327,321
Net asset value per Ordinary share (p)	138.28	181.77	166.97

6. During the period to 30 April 2008 1,157,500 Ordinary shares of 5p each were bought back for cancellation at a total cost of £1,329,000 including expenses. Subsequent to the period end a further 75,000 Ordinary shares were bought back for cancellation at a total cost of £91,000 including expenses, leaving 48,097,573 Ordinary shares in issue at the date of this report.

On 28 February 2008, 2,752 Subscription shares were exercised at 170p per share, leaving 8,529,027 subscription shares in issue at the date of this report.

7. Commitments, contingencies and post Balance Sheet events

On 5 November 2007, the European Court of Justice ruled that management fees should be exempt from VAT. HMRC has announced its intention not to appeal against this case to the UK VAT Tribunal and therefore protective claims which have been made in relation to the Company will be processed in due course. The Board is currently in the process of quantifying the potential repayment that should be due. However, the amount the Company will receive, the period to which it will refer, and the timescale for receipt remain uncertain and hence the Company has made no provision in these financial statements for any such repayment.

- 8.** The financial information for the six months ended 30 April 2008 and 30 April 2007 comprises non-statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information for the year ended 31 October 2007 has been extracted from published accounts that have been delivered to the Registrar of Companies and on which the report of the auditors was unqualified and did not contain a Statement under either Section 237(2) or 237(3) of the Companies Act 1985.

Independent Review Report to Dunedin Smaller Companies Investment Trust PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months to 30 April 2008 which comprises the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (the "DTR") of the UK's Financial Services Authority (the "UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2008 is not prepared, in all material respects, in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board and the DTR of the UK FSA.

KPMG Audit Plc

Chartered Accountants
Edinburgh

How to Invest in Dunedin Smaller Companies Investment Trust PLC

Direct

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

Aberdeen's Investment Plan for Children

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

Aberdeen's Investment Trust Share Plan

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

Stocks and Shares ISA

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

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

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

ISA Transfer

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

Investment Trust Pension

The Investment Trust Pension enables investors to save for retirement by investing in Dunedin Smaller Companies Investment Trust PLC. The Investment Trust Pension offers a Personal Pension Plan. Contributions can be made regularly or by lump sums, and there are low minimum investment amounts.

Note

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

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

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

Trust Information

If investors would like details of Dunedin Smaller Companies Investment Trust PLC or information on the Children's Plan, Share Plan, ISA or Pension please telephone 0500 00 00 40 or write to Aberdeen Investment Trusts, Block C, Western House, Lynchwood Business Park, Peterborough PE2 6BP or e-mail at inv.trusts@aberdeen-asset.com. Details are also available on www.invtrusts.co.uk.

Keeping You Informed

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

For internet users, detailed data on Dunedin Smaller Companies Investment Trust PLC, including price,

How to Invest in Dunedin Smaller Companies Investment Trust PLC continued

performance information and a monthly fact sheet is available from the Trust's website (www.dunedinsmaller.co.uk) and the TrustNet website (www.trustnet.co.uk). Alternatively you can call 0500 00 00 40 for trust information.

For information concerning your shareholding, please contact

Registrar

Equiniti Limited
(formerly Lloyds TSB Registrars)
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2441*
Textphone: 0871 384 2255*
Website: www.shareview.co.uk

* Calls to this/these numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact:
Telephone: 0500 00 40 00
Email: aam@lit-request.com

For information on the Investment Plan for Children, Share Plan, ISA or ISA Transfer, please contact:
Aberdeen Investment Trust Administration
Block C, Western House
Lynchwood Business Park
Peterborough, PE2 6BP
Telephone 0500 00 00 40

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

The above information has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited, One Bow Churchyard, Cheapside, London EC4M 9HH which is authorised and regulated by the Financial Services Authority.

Corporate Information

Directors

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

Manager and Registered Office

Aberdeen Asset Managers Limited
7th Floor, 40 Princes Street
Edinburgh EH2 2BY
Telephone: 0131 582 4000

Company Registration Number: SC 14692

Registrars

Equiniti Limited
(formerly Lloyds TSB Registrars)
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
Shareholder Helpline: 0871 384 2441*
Textphone: 0871 384 2255*
Website: www.shareview.co.uk

* Calls to this/these numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

Website

www.dunedinsmaller.co.uk



Aberdeen