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## Dunedin Smaller Companies Investment Trust plc

Interim report for the 6 months to 30 April 2004





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## Objective & Company Summary

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.

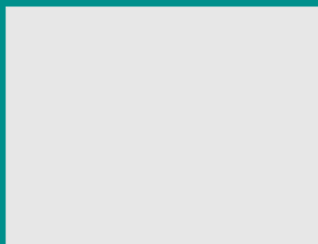
### Financial Summary

	30 April 2004	31 October 2003	% change
Capital return			
Net asset value	503.77p	450.63p	+11.8
FTSE SmallCap Index (exc. Investment Companies)	2,643.05	2,493.20	+6.0
Share price	377.00p	341.50p	+10.4
Total return			
Net asset value	—	—	+13.9
FTSE SmallCap Index (exc. Investment Companies)	—	—	+7.2
Share price	—	—	+13.0
Interim dividend	4.0p	4.0p <sup>†</sup>	
Actual gearing ratio	3.63%	(0.23%)	
Maximum potential gearing ratio	17.99%	20.11%	

<sup>†</sup> Figure relates to the six months to 30 April 2003

# Chairman's Statement

The smaller company sector remained in favour with investors and produced good returns in the six months to 30 April 2004, both in absolute terms and relative to the FTSE 100 Index. The company's net asset value rose by 11.8%, compared to a rise of 6.0% in the FTSE Small Cap Index (ex Investment Companies) and a rise in the FTSE100 Index of 4.7%. The company's share price rose by 10.4% to 377.0p while the discount of the share price to the net asset value per share at 30 April 2004 was 25.2% with debt valued at par and 23.2% with debt valued at market.



The Earl of Dalhousie

The period was characterized by a continued recovery in equity valuations as evidence of economic recovery emerged. Stronger profits and increasing investor confidence boosted interest in smaller companies although the markets have eased back in recent weeks in response to higher interest rates and higher oil prices.

The company's portfolio is structured to deliver both capital and income growth and benefited from our continued focus on high quality companies where an attractive and growing dividend is anticipated. For example, Topps Tiles has a strong track record of growing profits, accompanied by good cashflow and higher dividend payments and performed well as trading conditions remained buoyant. Another example was Savills which also benefited from favourable business conditions in

both the residential and commercial property divisions. This company also offers good cash-flows, a strong balance sheet and an attractive dividend yield.

## Gearing

The company utilised a proportion of its gearing throughout the period reflecting growing confidence of economic recovery in both the US and UK - at 30 April 2004 the actual gearing ratio was 3.6% (31 October 2003: -0.2%) The decision to invest the company's borrowings is driven by the manager identifying attractive investment opportunities within guidelines agreed by the Board.

## Revenue Account

Earnings for the period were 6.96p which compares to 6.10p for the corresponding period last year. The interim dividend has

been maintained at 4.0p and this will be paid on 30 June 2004 to shareholders on the register on 18 June 2004.

### Prospects

Economic recovery is continuing in the UK, with the housing market and consumer spending remaining buoyant. The Bank of England has increased interest rates on three occasions, taking base rates up to 4.25%, with the most recent increase reflecting concerns about inflation pressures arising from higher commodity prices.

The improved economic conditions are now flowing through to company profits,

particularly within cyclical sectors, and management teams are more positive about the trading outlook. It is encouraging that the manufacturing sector also seems to be recovering. The manager will continue to focus the portfolio towards quality companies with good management, strong cash-flow, a sound balance sheet and prospects of dividend growth to enable your company to deliver capital appreciation and increased dividend income to our shareholders.

### **The Earl of Dalhousie**

*Chairman*

28 May 2004

## Distribution of Investments

	At 30 April 2004 %	At 31 October 2003 %	At 30 April 2003 %
Resources	2.0	2.8	2.9
Basic industries	12.3	12.4	13.7
General industrials	11.7	12.0	12.6
Cyclical consumer	4.9	4.3	3.1
Non cyclical consumer	4.4	5.3	3.6
Cyclical services	30.7	25.8	22.9
Non cyclical services	1.1	1.2	0.5
Financials	12.9	13.5	14.8
Information technology	7.8	5.8	2.7
<b>Total investments</b>	<b>87.8</b>	<b>83.1</b>	<b>76.8</b>
Net current assets	12.2	16.9	23.2
<b>Total assets less current liabilities</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Twenty Largest Investments

at 30 April 2004

Company	Market Value £000	Description
Topps Tiles	2,735	General retailers
Savills	2,637	Real estate
Intermediate Capital	2,114	Speciality and other finance
Headlam	2,063	Household goods & textiles
Paladin Resources	1,963	Oil and gas
Pendragon	1,809	Automobiles and parts
Morgan Sindall	1,577	Construction & building materials
Abacus	1,427	Electronic & electrical equipment
Wellington Holdings	1,406	Engineering and machinery
SIG	1,390	Construction & building materials
Ten largest investments	19,121	19.4% of total assets less liabilities
Belhaven	1,319	Leisure & hotels
Laird	1,318	Electronic & electrical equipment
Bellway	1,291	Construction & building materials
White Young Green	1,271	Support services
ITNET	1,260	Software and computer services
Systems Union	1,256	Software and computer services
Victrex	1,248	Chemicals
TDG	1,240	Transport
British Polythene Industries	1,213	Support services
Mowlem	1,209	Construction & building materials
Twenty largest investments	31,746	32.3% of total assets less liabilities
Other investments represented by 80 holdings	54,655	55.5% of total assets less liabilities
Total value of investments	86,401	87.8% of total assets less liabilities
Net current assets	11,973	12.2% of total assets less liabilities
Total assets less current liabilities	98,374	100.0% of total assets less liabilities

# Statement of Total Return

	6 months to 30 April 2004 (unaudited)		
	Revenue £000	Capital £000	Total £000
Realised gains/(losses) on investments	—	408	408
Unrealised gains on investments	—	8,538	8,538
Income from investments	1,266	—	1,266
Interest receivable on short term deposits	245	—	245
Other income	—	—	—
Investment management fee	(57)	(170)	(227)
Other administrative expenses	(144)	—	(144)
	<hr/>	<hr/>	<hr/>
<b>NET RETURN BEFORE FINANCE</b>			
<b>COSTS AND TAXATION</b>	1,310	8,776	10,086
Interest payable and similar charges	(159)	(476)	(635)
	<hr/>	<hr/>	<hr/>
<b>RETURN ON ORDINARY ACTIVITIES</b>			
<b>BEFORE TAXATION</b>	1,151	8,300	9,451
Taxation	—	—	—
	<hr/>	<hr/>	<hr/>
<b>RETURN ON ORDINARY ACTIVITIES</b>			
<b>AFTER TAXATION</b>	1,151	8,300	9,451
Dividends in respect of equity shares	(662)	—	(662)
	<hr/>	<hr/>	<hr/>
	489	8,300	8,789
	<hr/>	<hr/>	<hr/>
<b>RETURN PER ORDINARY SHARE</b>	6.96p	50.15p	57.11p
	<hr/>	<hr/>	<hr/>
<b>DIVIDEND PER ORDINARY SHARE</b>	4.00p		
	<hr/>		

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

## Statement of Total Return

6 months to 30 April 2003 (unaudited)			12 months to 31 October 2003 (audited)		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
—	(14,810)	(14,810)	—	(15,334)	(15,334)
—	15,504	15,504	—	34,223	34,223
1,044	—	1,044	2,098	—	2,098
291	—	291	584	—	584
3	—	3	4	—	4
(42)	(125)	(167)	(93)	(279)	(372)
(129)	—	(129)	(274)	—	(274)
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1,167	569	1,736	2,319	18,610	20,929
(159)	(476)	(635)	(317)	(949)	(1,266)
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1,008	93	1,101	2,002	17,661	19,663
—	—	—	—	—	—
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1,008	93	1,101	2,002	17,661	19,663
(662)	—	(662)	(2,135)	—	(2,135)
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346	93	439	(133)	17,661	17,528
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6.10p	0.55p	6.65p	12.09p	106.71p	118.80p
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4.00p					
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## Balance Sheet

	At 30 April 2004 (unaudited) £000	At 31 October 2003 (audited) £000	At 30 April 2003 (unaudited) £000
<b>FIXED ASSETS</b>			
Investments	86,401	74,409	55,635
<b>CURRENT ASSETS</b>			
Debtors	1,616	1,204	659
Treasury Bills	6,946	13,926	6,948
AAA Money Market Funds	4,000	7,900	8,750
Cash and short term deposits	842	1,335	1,890
	13,404	24,365	18,247
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	(1,431)	(9,194)	(1,395)
<b>NET CURRENT ASSETS</b>	11,973	15,171	16,852
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	98,374	89,580	72,487
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	(14,833)	(14,828)	(14,824)
	83,541	74,752	57,663
<b>CAPITAL AND RESERVES</b>			
Called up share capital - equity	4,138	4,138	4,138
Capital reserve - realised	62,533	62,771	63,922
Capital reserve - unrealised	14,057	5,519	(13,200)
Capital redemption reserve	487	487	487
Revenue reserve	2,326	1,837	2,316
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	83,541	74,752	57,663
Net asset value per ordinary 25p share	503.77p	450.63p	347.35p

## Cashflow Statement

	6 months to 30 April 2004 (unaudited) £000	6 months to 30 April 2003 (unaudited) £000	12 months to 31 October 2003 (audited) £000
Revenue before finance costs and taxation	1,310	1,167	2,319
Increase in accrued income	(416)	(320)	(52)
Increase/(decrease) in creditors	6	(9)	19
Management fee charged to capital	(170)	(125)	(279)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>730</b>	<b>713</b>	<b>2,007</b>
<b>NET CASH OUTFLOW FROM SERVICING OF FINANCE</b>	<b>(628)</b>	<b>(628)</b>	<b>(1,256)</b>
<b>TOTAL TAX PAID</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>FINANCIAL INVESTMENTS</b>			
Purchase of investments	(17,155)	(12,196)	(17,179)
Sale of investments	7,153	13,504	24,056
<b>NET CASH (OUTFLOW)/ INFLOW FROM FINANCIAL INVESTMENT</b>	<b>(10,002)</b>	<b>1,308</b>	<b>6,877</b>
<b>EQUITY DIVIDENDS PAID</b>	<b>(1,473)</b>	<b>(1,473)</b>	<b>(2,135)</b>
<b>NET CASH (OUTFLOW)/INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>	<b>(11,373)</b>	<b>(80)</b>	<b>5,493</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>	<b>10,880</b>	<b>(2,723)</b>	<b>(8,851)</b>
<b>DECREASE IN CASH</b>	<b>(493)</b>	<b>(2,803)</b>	<b>(3,358)</b>

## Notes to the Accounts

- The accounts have been prepared in accordance with the 2003 Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'. The same accounting policies used for the year to 31 October 2003 have been applied.
- Total equity shareholders' funds have been calculated in accordance with the provisions of Financial Reporting Standard 4, 'Capital Instruments'. The net asset values per ordinary share have been calculated on the basis of shareholders' rights to reserves, adjusted to reflect the redemption of debentures at par. A reconciliation of the two figures is as follows:

	30 April 2004 p	31 October 2003 p	30 April 2003 p
Shareholders' funds per ordinary share	504.78	451.67	348.42
Less: Unamortised premium and expenses arising from debenture issue	(1.01)	(1.04)	(1.07)
Net asset value per ordinary share	<u>503.77</u>	<u>450.63</u>	<u>347.35</u>

- The number of ordinary shares in issue at 30 April 2004 was 16,550,000 (31 October 2003–16,550,000). The return per ordinary share is based on the weighted average number of shares in issue.
- An interim dividend of 4.00p for the year to 31 October 2004 will be paid on 30 June 2004 to shareholders on the register on 18 June 2004. The ex-dividend date is 16 June 2004.
- The financial information for the year ended 31 October 2003 has been extracted from the Annual Report and Accounts of the company which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified.

The statement of total return and the balance sheet do not represent full accounts in accordance with Section 240 of the Companies Act 1985.

# Independent Review Report by KPMG Audit Plc

## To Dunedin Smaller Companies

### Investment Trust plc

#### Introduction

We have been engaged by the company to review the financial information set out on pages 6 to 10 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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 Listing Rules of the Financial Services Authority. 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual

accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

#### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

#### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 April 2004.

#### KPMG Audit Plc

*Chartered Accountants*

Edinburgh, 28 May 2004

## Information for Investors

### **InvestIT – The Edinburgh Fund Managers Investment Trust Savings Plan**

This product provides a straightforward way to invest in Dunedin Smaller Companies Investment Trust and the other investment trusts offered by Edinburgh Fund Managers. You can make regular monthly payments and/or invest occasional lump sums. Main register shareholders may also have their dividends reinvested in the Plan. 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 charge of £10+VAT on 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 the tax year 2004/2005 in Dunedin Smaller Companies Investment Trust where they subscribe to 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 but these will be ringfenced. No further contributions can therefore be made through a PEP other than re-investment 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, a transfer brochure is available. Charges are low with no entrance transfer fee being charged. An annual management charge of 0.5%+VAT capped at £40+VAT is charged.

### **The Edinburgh Fund Managers Investment Trust Pension**

This low cost and flexible pension allows you to include Dunedin Smaller Companies Investment Trust in your retirement planning. Contributions can be made monthly, yearly or by lump sums and there are low minimum investment amounts.

## Information for Investors

Please remember that past performance is not necessarily a guide to the future. Stock market 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.

### Keeping you informed

Dunedin Smaller Companies Investment Trust's share price appears daily in most leading newspapers. Investors can also obtain the latest share price by phoning FT Cityline on 0906 8432385. 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](http://www.edfd.com)) and the TrustNet website ([www.trustnet.co.uk](http://www.trustnet.co.uk)).

### Contact us:

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*The above has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Edinburgh Fund Managers plc. Edinburgh Fund Managers plc is a member of the Aberdeen Asset Management Group and is authorised and regulated by the Financial Services Authority.*

**Directors**

The Earl of Dalhousie, Chairman

T J K Barnes

R M Entwistle

N M Yarrow

**Manager and Secretary**

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