

18 December 2002

## **DUNEDIN SMALLER COMPANIES INVESTMENT TRUST PLC**

The objective of Dunedin Smaller Companies Investment Trust is the achievement of long-term capital growth from a portfolio of smaller companies in the United Kingdom, at a higher rate than the FTSE SmallCap Index (excluding Investment Companies).

### **PRELIMINARY RESULTS FOR YEAR ENDED 31 OCTOBER 2002**

- Net asset value fell by 28.1% compared to a 22.6% fall by the benchmark index
- Share price fell from 391p to 264p – a decrease of 32.5%
- Revenue return for the year was 9.92p per share (2001 – 13.43p)
- The Board is recommending a final dividend of 8.9p which, when combined with the interim dividend, makes a total dividend for the year of 12.9p (2001 – 12.9p)

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## **CHAIRMAN'S STATEMENT**

I am disappointed to report a significant fall in the net asset value of your trust. Share prices of many smaller companies have been badly affected by the difficult stockmarket environment with technology and other economy sensitive sectors suffering sharp falls. The equity portfolio fell 24.2% but due to the effects of gearing the net asset value fell 28.1% compared to a fall of 22.6% in the FTSE SmallCap Index (excluding investment companies)

The share price fell from 391.0p to 264.0p, a decrease of 32.5%. The discount to net asset value widened reflecting the current uncertainty in equity markets and smaller company shares in particular.

### **Background**

Investors in smaller company shares, once again, endured a difficult period as the UK economy experienced below average levels of growth. Apart from the housing market, which enjoyed high activity levels and rising prices, most sectors of the economy faced problems in terms of the demand for and prices achieved by their products. Technology companies in particular, faced an environment of low demand and high supply resulting in pressure on profitability. With activity remaining subdued the Bank of England kept interest rates at low levels which gave homeowners the opportunity to remortgage property thus boosting disposable income. This supported consumption resulting in the service sector holding up quite well. Overall the situation is very similar to previous years with manufacturing output falling and consumer expenditure remaining buoyant. Price rises and hence profits growth has been hard to achieve and cost cutting has been the key to company profitability and survival.

In this difficult environment the trust intends to reinforce its investment emphasis on a combination of core quality companies with consistent earnings allied to selective value situations and emerging growth companies. Many companies have continued to operate profitably over the last twelve months, but share prices have not reflected the underlying business strength. The manager neutralised the gearing in the autumn and the trust will remain ungeared until the outlook for corporate profitability becomes clearer and market sentiment improves.

## **Revenue**

The revenue return for the year amounted to 9.92p per share (2001 – 13.43p). A number of companies have taken the opportunity to reduce or omit dividend payments in order to conserve cash and improve balance sheets in the current environment. The board is recommending a final dividend of 8.9p which will be paid on 14 February 2003 to shareholders on the register on 17 January 2003. When combined with the interim dividend of 4.0p the total dividend paid for the year will amount to 12.9p, unchanged from last year. Although the dividend was not covered by earnings in the current year we have been able to maintain the dividend level by using part of the reserve which has been accumulated over many years.

## **Share Buy Backs**

Shareholders have given the board authority to purchase the company's shares for cancellation. During the year the company bought back 150,000 shares. A special resolution proposing an extension to this facility will be put to shareholders at the annual general meeting.

## **Corporate Governance**

As a Stock Exchange listed company, this trust is required to consider the degree to which it complies with the guidelines emanating from the Combined Code. In line with best practice, your board meets regularly with the manager, auditors and other advisors and is in compliance with its corporate governance responsibilities.

## **Marketing Initiatives**

The board also continues to promote the company through the AITC's and manager's marketing initiatives which provide a range of savings schemes through which investors are able to invest in Dunedin Smaller Companies at a low cost and in a convenient manner.

More information on these savings products is available on the manager's website, [www.edfd.com](http://www.edfd.com).

**Outlook**

Recent economic data suggests that the UK economy is unable to shrug off the effects of slowdown elsewhere in the world. The manufacturing sector has to contend with poor conditions in the UK as well as weakness in its main export markets of the United States and Europe as capital investment continues to be cut back. The onus for keeping the economy moving forward will once again fall on the consumer with some help from increased government spending. As long as interest rates remain low and employment high, the economy should be capable of growing, albeit at a lower rate than previously. The resultant modest increase in corporate profits should allow some progress in smaller companies' shares from current levels but, until overall confidence in the economy improves, share price gains are likely to be limited.

**STATEMENT OF TOTAL RETURN (AUDITED)**

	Year to 31 October 2002		
	Revenue £000	Capital £000	Total £000
Realised losses on investments	-	(10,766)	(10,766)
Unrealised losses on investments	-	(9,905)	(9,905)
Income from investments	1,933	-	1,933
Interest receivable on short term deposits	390	-	390
Other income	15	-	15
Investment management fee	(105)	(314)	(419)
Other administrative expenses	(270)	-	(270)
<b>Net Return before Finance Costs and Taxation</b>	<b>1,963</b>	<b>(20,985)</b>	<b>(19,022)</b>
Interest payable and similar charges	(316)	(949)	(1,265)
<b>Return on Ordinary Activities before Taxation</b>	<b>1,647</b>	<b>(21,934)</b>	<b>(20,287)</b>
Taxation	-	-	-
<b>Return on Ordinary Activities after Taxation</b>	<b>1,647</b>	<b>(21,934)</b>	<b>(20,287)</b>
Dividends in respect of equity shares	(2,135)	-	(2,135)
	<b>(488)</b>	<b>(21,934)</b>	<b>(22,422)</b>
<b>RETURN PER ORDINARY SHARE</b>	<b>9.92p</b>	<b>(132.09p)</b>	<b>(122.17p)</b>

**STATEMENT OF TOTAL RETURN (AUDITED)**

	Year to 31 October 2001		
	Revenue £000	Capital £000	Total £000
Realised losses on investments	-	(131)	(131)
Unrealised losses on investments	-	(30,684)	(30,684)
Income from investments	2,571	-	2,571
Interest receivable on short term deposits	370	-	370
Other income	15	-	15
Investment management fee	(142)	(802)	(944)
Other administrative expenses	(253)	-	(253)
<b>Net Return before Finance Costs and Taxation</b>	<b>2,561</b>	<b>(31,617)</b>	<b>(29,056)</b>
Interest payable and similar charges	(316)	(949)	(1,265)
<b>Return on Ordinary Activities before Taxation</b>	<b>2,245</b>	<b>(32,566)</b>	<b>(30,321)</b>
Taxation	(2)		(2)
<b>Return on Ordinary Activities after Taxation</b>	<b>2,243</b>	<b>(32,566)</b>	<b>(30,323)</b>
Dividends in respect of equity shares	(2,154)	-	(2,154)
	<b>89</b>	<b>(32,566)</b>	<b>(32,477)</b>
<b>RETURN PER ORDINARY SHARE</b>	<b>13.43p</b>	<b>(195.01p)</b>	<b>(181.58p)</b>

**BALANCE SHEET (AUDITED)**

	At 31 October 2002 £000	At 31 October 2001 £000
FIXED ASSETS		
Investments	56,331	83,006
CURRENT ASSETS		
Debtors	408	568
UK Treasury Bills	4,975	9,932
AAA Money Market Funds	8,000	-
Cash and short term deposits	4,693	9,430
	<u>18,076</u>	<u>19,930</u>
CREDITORS: Amounts falling due within one year	(2,365)	(7,896)
NET CURRENT ASSETS	<u>15,711</u>	<u>12,034</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	72,042	95,040
CREDITORS: Amounts falling due after more than one year	(14,818)	(14,809)
	<u>57,224</u>	<u>80,231</u>
CAPITAL AND RESERVES		
Called up share capital - equity	4,138	4,175
Capital reserve - realised	79,333	91,947
- unrealised	(28,704)	(18,799)
Capital redemption reserve	487	450
Revenue reserve	1,970	2,458
TOTAL EQUITY SHAREHOLDERS' FUNDS	<u>57,224</u>	<u>80,231</u>
Net asset value per 25p ordinary share	<u>344.67p</u>	<u>479.28p</u>



**CASHFLOW STATEMENT (AUDITED)**  
**For the year ended 31 October**

	2002 £000	2002 £000	2001 £000	2001 £000
<b>Net cash inflow from operating activities</b>		1,64		1,64
<b>Servicing of finance</b>				
Interest paid	<u>(1,256)</u>		<u>(1,24)</u>	
<b>Net cash outflow from servicing of finance</b>		(1,256)		(1,256)
<b>Taxation</b>				
Overseas tax paid	<u>-</u>		<u>(4)</u>	
<b>Total tax paid</b>		-		(4)
<b>Financial investment</b>				
Purchase of investments	(32,502)		(24,94)	
Sales of investments	<u>33,107</u>		<u>38,80</u>	
<b>Net cash inflow from financial investment</b>		605		13,86
<b>Equity dividends paid</b>		<u>(2,14)</u>		<u>(2,14)</u>
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>		(1,14)		12,16
<b>Net cash outflow from management of liquid resources</b>		(3,04)		(5,00)
<b>Financing</b>				
Buyback of ordinary shares		<u>(585)</u>		<u>-</u>
<b>(Decrease)/increase in cash</b>		<u>(4,72)</u>		<u>7,16</u>

**Notes:**

1. The directors have proposed a final dividend of 8.9p per ordinary share (2001 – 8.9p) for the year ended 31 October 2002. The final dividend will be paid on 14 February 2003 to shareholders on the register on 17 January 2003. The ex dividend date is 15 January 2003.
2. The financial information for the year ended 31 October 2001 has been extracted from the Annual Report and Accounts of the company which has been filed with the Registrar of Companies and on which the auditor's report was unqualified.
3. The statement of total return (incorporating the revenue account), balance sheet and cashflow statement set out above do not represent full accounts in accordance with Section 240 of the Companies Act 1985. The accounts have been prepared in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.
4. The accounts have been prepared under the same accounting policies used for the year to 31 October 2001. The statutory accounts for 2002 contain an unqualified audit report and will be delivered to the Registrar of Companies following the company's Annual General Meeting which will be held at Tayforth House, 9 Luna Place, Technology Park, Dundee on Thursday 13 February 2003 at 12 noon.
5. The annual report will be posted to shareholders on 6 January 2003 and copies will be available at the head office of the Secretary - Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD.

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For Dunedin Smaller Companies Investment Trust PLC  
Edinburgh Fund Managers plc, SECRETARY