



# Investing in private equity

Dunedin  
Enterprise Investment Trust PLC

Dunedin Enterprise Investment Trust PLC  
Annual Report and Accounts 2006

## Objective

Dunedin Enterprise Investment Trust PLC specialises in the provision of private equity finance for management buyouts. Private equity is medium to long term finance provided in return for an equity stake in established, potentially high growth private companies.

The Company's primary objective is to achieve substantial long term capital growth in its assets through capital gains from its investment.

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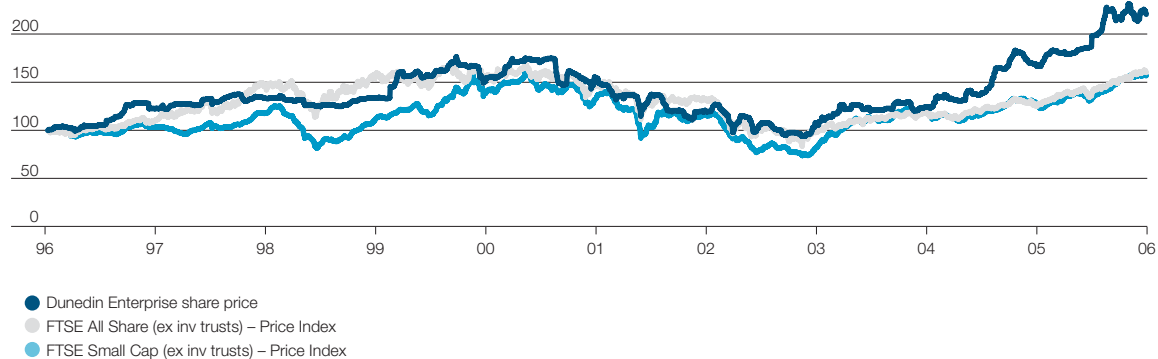
## Financial Highlights

	30 April 2006	30 April 2005
Total return per ordinary share	91.0p	74.1p
Net asset value per ordinary share	498.2p	416.3p
Share price	457.75p	346.0p
Dividend per ordinary share	9.45p	9.0p
Special dividend per ordinary share	2.0p	–
Discount	8.1%	16.9%
Total expense ratio	2.4%	2.5%

## Comparative Performance

Periods to 30 April 2006	1 Year %	3 Year %	5 Year %	10 Year %
Net asset value per ordinary share	19.7	61.1	37.5	102.8
Share price	32.3	109.5	43.1	121.1
FTSE Small Cap Index ("the Benchmark")	25.0	90.4	15.5	57.1
FTSE All Share Index	27.8	61.6	7.0	60.4

## Ten Year Record



Source: Thomson Datastream

**Letts Filofax Group Limited**  
www.letts.co.uk www.filofax.com

In March 2006, Dunedin Enterprise successfully exited from Letts Filofax in a secondary buyout to Phoenix Equity Partners. Letts Filofax designs and sells organisers, diaries and related accessories through its two UK and nine overseas subsidiaries, exporting its products to over 40 countries worldwide.

Dunedin Enterprise originally invested in the management buyout ("MBO") of Letts in 2000, attracted by the strength and focus of the management team. Less than a year later, the acquisition of Filofax had been completed creating a strongly cash generative business which was able to de-gear completely within five years of the MBO. Over the course of the investment, the annual profits of the combined businesses of Letts and Filofax grew by over 70%.



Brian Scouler, Managing Director of Portfolio at Dunedin managed the exit. He commented, "Letts Filofax was a very successful investment for Dunedin Enterprise. The original Letts business was cash generative and had a strong management team, making it an excellent fit with Dunedin Enterprise's investment strategy. Soon after the MBO, your Company recognised that consolidation of the Letts and Filofax brands would bring attractive synergies and moved quickly to complete the Filofax acquisition. With Dunedin Enterprise's support, Letts Filofax was able to re-invigorate the brands with new products and attract a new customer base. After considering a range of alternative strategies, it was agreed that a secondary MBO, allowing additional investment in the group's brands, would be the preferred way forward. The group was sold to Phoenix Equity Partners in March 2006."

**Caledonian Building Systems Limited**  
www.cbbuildings.co.uk

In April 2006, Dunedin Enterprise exited from Caledonian Building Systems following the acquisition of the company by Champion Enterprises Inc USA. Caledonian specialises in the manufacture and delivery of off-site construction projects in a wide variety of public and private sector markets and is the UK market leader in modular building construction.

Dunedin Enterprise invested in the MBO of Caledonian Building Systems in November 2003 providing funding which helped the company continue its rapid growth and maintain its position at the forefront of off-site construction. Diversification into new markets including hotels and residential accommodation has helped the company move up The Sunday Times Profit Track 100 to 38th position in 2006.



Dougal Bennett, Director of Dunedin led the sale process and was involved in the original transaction. He noted, "Caledonian Building Systems has been an excellent investment for Dunedin Enterprise, generating a superb return. The management team has grown the business significantly over the period of the investment, diversifying into new markets including hotels and residential accommodation where they are now the UK modular market leader."

Dave Turnbull, Managing Director of Caledonian Building Systems said, "Dunedin's backing provided financial support at a critical stage in our business growth, and has allowed us to pursue additional opportunities in the off-site construction market. Dunedin's support, and now the combination of Caledonian and Champion, ensures that Caledonian continues to grow as a strongly backed, major player in the UK construction industry."

**Davenham Group plc**  
www.davenham.co.uk

Davenham's flotation on the AIM market in November 2005 allowed Dunedin Enterprise to realise a significant proportion of its investment while retaining a residual stake. Davenham provides lending solutions designed to meet the financing needs of UK SMEs, typically involving loans of between £10,000 and £4 million.

Dunedin Enterprise backed the MBO of Davenham in June 2000. Post-MBO, Dunedin took an active role in supporting and advising the business, including raising two rounds of finance, facilitating an acquisition and working through multiple exit scenarios.

When Dunedin Enterprise backed the MBO, Davenham employed 35 staff in one office. At the float, there were 130 employees in five offices, profits had quadrupled and the company's client base had increased from 250 to 2,500. Dunedin's support added considerable value to Davenham's business, helping to create the UK's leading independent SME funder.



Brian Scouler, Managing Director of Portfolio at Dunedin commented on Davenham's flotation, "We have been a shareholder in Davenham since 2000 when we led its MBO and are delighted with the strong growth of the company since then. The successful listing on AIM has allowed Dunedin Enterprise to realise a significant proportion of its investment and we will remain a supportive shareholder of Davenham."

Davenham's Chief Executive, David Coates, commented: "Dunedin played a key role in the development of the business, working closely with the management team and providing further financing to support both organic and acquisitive growth. Davenham's continuing success exemplifies Dunedin's ability to create long term value and sustainable growth by working in close partnership with management to develop its investee companies."

## RSL Steeper Holdings Limited

[www.rslsteeper.com](http://www.rslsteeper.com)

In December 2005, Dunedin Enterprise invested £4.1 million in the MBO of RSL Steeper. RSL is the UK's leading supplier of rehabilitation services to the NHS including prosthetic (artificial limbs), orthotic (external supports) and electronic assistive devices and services (electronic devices to assist in daily living).

RSL has a head office in Rochester, Kent and a manufacturing facility for prosthetics, orthotics and electronic assistive devices in Leeds. The company operates ten prosthetic service facilities and 32 orthotics centres in NHS hospitals and at other locations throughout England.



Nicol Fraser, Director of Dunedin commented: "We felt this was an excellent opportunity to back a market leading business with a proven track record and strong opportunities for growth. RSL has an outstanding reputation for the quality of its clinical services and has shown consistent growth in revenue and profitability since the management team bought the business two years ago. They have demonstrated the ability to drive the business forward and we are delighted to support them."

RSL's CEO Simon Webster added, "We are excited about the completion of the MBO and Dunedin's commitment which will help us to continue building the business. We have worked to build a reputation as a provider of high quality services in our field and recognise the potential for growth with the support of Dunedin's backing."

## ZVC Group Limited

[www.zenith.co.uk](http://www.zenith.co.uk)

In June 2005, Dunedin Enterprise invested £7.5 million in the MBO of Leeds-based Zenith. The company is one of the UK's leading independent fleet management specialists, providing services to companies with car fleets of 250 to 1,500 cars. Zenith has a strong focus on providing excellent customer service and improving its offering through product innovation and effective use of technology. This strategy has been rewarded with a blue chip client base which now includes Asda, BUPA and logistics specialists 3663.

Dunedin was attracted to the opportunity by the quality and track record of the management team, led by Andrew Cope, which had achieved exceptional growth delivering profits well ahead of business plan forecasts pre-MBO. The company has an exemplary client retention record and new client wins which underpin growth for three years of the business plan.



Mark Ligertwood, Investment Director of Dunedin said: "This was an excellent opportunity to back a management team we had been tracking for some considerable time, in a growing cash generative business. This energetic, dynamic and creative team has the drive to take the business to the next stage of its development."

Andrew Cope, Managing Director of Zenith commented: "The MBO will allow us to continue to develop the business through excellent service provision and product innovation. This, together with significant investment in information technology, has already enabled the company to win larger contracts while continuing to focus on existing customers. We look forward to seeing this trend continue with Dunedin's backing over the coming years."

## Practice Plan Group (Holdings) Limited

[www.practiceplan.co.uk](http://www.practiceplan.co.uk)

In September 2005, Dunedin Enterprise invested £4.3 million in the MBO of Shropshire-based Practice Plan, one of the UK's leading providers of independent payment schemes to dental practices. The company oversees the conversion from the NHS, providing marketing support and setting up and maintaining direct debit schemes. These services are also available to opticians and veterinary practices.

Dunedin's expertise in the financial services and healthcare markets, made it the preferred private equity partner in a highly competitive process. This investment fits with Dunedin Enterprise's focus on supporting companies with significant growth potential. In this case, growth in the Practice Plan business is planned through increasing penetration among existing dentists and growth by acquisition.



Duncan Macrae, Investment Director of Dunedin led the Practice Plan transaction for Dunedin. He commented, "Practice Plan is an excellent fit for the Dunedin Enterprise portfolio. This transaction offered an opportunity to support a company that, despite being one of the market leaders in its field, still presented significant opportunities for expansion. The private dentistry market remains in rapid growth with the vast majority of the private dental market self pay."

Steve Turnock, Managing Director of Practice Plan commented: "The MBO will allow us to build on our position in a growing market. We have attained our current position by resolutely focusing on the highest level of service provision, working closely with customers to deliver tailored packages to meet their specific needs. The business is at an exciting stage of growth and with Dunedin's support we look forward to developing Practice Plan further."



Edward Dawnay, Chairman

In the past year continued economic growth and low interest rates have supported a rising equity market and this in turn has resulted in a strong private equity sector. Dunedin Enterprise has been well placed to take advantage of this favourable climate and during the course of the year made realisations totalling some £70 million. As a result I can report another increase in net asset value of some 19.7% for the year to 30 April 2006. The share price of Dunedin Enterprise increased by 32.3% over the same period. This compares to the FT Small Cap Index which rose by 25.0% over the year to 30 April 2006.

I am also pleased to announce that Dunedin Enterprise was named the Best Private Equity Trust in Money Observer Magazine's Annual Investment Trust Awards for 2006. The award was won in recognition of consistently superior investment performance in each of the past three calendar years, outperforming 18 other UK private equity trusts. It is also worth noting that according to the Association of Investment Trust Companies, the private equity sector remains the top performer over ten years out of all the Association's members.

Interest in the private equity sector, as last year, continues to increase. In 2005 the total value of deals in the UK buyout market was £24.2 billion. Although the UK private equity sector is relatively mature, there is a world wide institutional demand and this has a direct influence on the price paid for businesses. As I reported last year, this has a beneficial effect upon disposals but contributes to the competition for deals. The lower mid-market is marginally less competitive and with an experienced team your Manager has continued to acquire businesses at reasonable prices through its extensive network of contacts.

### **Portfolio activity**

The Company invested £21.6 million in the year to 30 April 2006. A total of £15.9 million was invested in three new investments, Zenith, Practice Plan and RSL Steeper and a further £5.7 million was invested in limited partnership funds and existing portfolio companies. Total realisation proceeds from the portfolio in the year were £70 million, which generated a profit of £24.1 million over valuation at 30 April 2005. The realised gain was generated principally through the sale of Caledonian Building Systems, Letts Filofax, C6 Solutions and Hayley Conference Centres combined with the flotation of Davenham.

The scale of disposals in the past year is such that realisations in the current year will inevitably be at a lower level. This will have a consequential impact on the valuation uplifts achieved on exits.

The Manager's review gives details of portfolio movements, including significant acquisitions, disposals and valuation changes.

Over the past 5 years Dunedin Enterprise has invested in equal proportions alongside the first Dunedin Buyout Fund ("DBF 1"), in which it had a £7 million commitment, representing some 13% of DBF I. DBF I, which is nearing the end of its investment period, has invested £39 million in eleven buyouts. The total return from these investments at 30 April 2006 is £74 million and includes five disposals and listings and is showing a money multiple of 1.9 times cost and a net annualised internal rate of return of 25%.

In May 2006, your Board made a commitment of £75 million to the Dunedin Buyout Fund II ("DBF II") which your Manager is currently raising. As with DBF I, it will enable Dunedin Enterprise to gain access to larger transactions within the mid-market range. DBF II will invest in UK buyouts with a deal size of £10 million to £50 million. No double fee will be charged by your Manager.

The commitment to the new fund will be met substantially by the Company's cash deposits which have recently increased on the back of a series of successful disposals. Dunedin Enterprise will still retain the flexibility to invest outside the MBO market as it has done in the past.

At the year end your Company had investments in unquoted companies totalling £57.9 million and £8.7 million in a quoted company. Cash and near cash amounted to £84.7 million and undrawn commitments to limited partnership funds amounted to £95.3 million. Investments plus commitments to private equity funds amount to £161.9 million, representing 107% of net assets at the year end.

#### **Dividend**

The Board is recommending a final dividend of 7.45p, making a total dividend for the year of 9.45p, a 5% increase on last year. The final dividend will be paid on 15 September 2006 to shareholders on the register on 18 August 2006.

The Board has also resolved to pay a special bonus dividend of 2.0p per share to shareholders on the same date as payment of the final dividend. This special dividend results from the additional dividend and loan interest income generated from realisations and reflects a successful year for your Company. It is not the intention that this bonus dividend should be repeated.

#### **Corporate governance**

Corporate governance plays an increasing role in the life of the Company. Each year the Board evaluates the Manager, its own performance, that of its committees, the individual directors and the Chairman. In evaluating the Manager, the Board reviews inter alia their management process, investment style, resources and risk control. The Board confirms that it is satisfied with the results of the review and is therefore of the opinion that the continuing appointment of the Manager is in the interests of shareholders.

#### **Annual General Meeting**

I very much look forward to welcoming shareholders to the AGM which will be held at the Merchants Hall in Hanover St, Edinburgh on Tuesday 12 September 2006 at 12 noon. It will be followed by a presentation by the Managers, reviewing the year and commenting on the outlook.

Edward Dawnay,  
Chairman  
16 June 2006



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\* Members of the Audit and Management Engagement Committee.  
# Members of the Nomination Committee.

**Edward Dawnay (56)\*\*** was appointed to the Board in 1995 and became Chairman in 1999. A chartered accountant, he worked for Lazards for 19 years until 1993 and is now an advisor to Fleming Family and Partners. He is Chairman of Treatt plc and Travel & General Holdings Limited, a company in which Dunedin Enterprise is a major shareholder. In addition, he is a Director of various private companies.

**Liz Airey (47)\*\*** was appointed to the Board in 2005. She has over 20 years experience in banking, corporate advisory and finance. She worked as Finance Director of Monument Oil and Gas plc from 1990 to 1999. She is non-executive Chairman of JPMorgan European Fledgling Investment Trust plc, Director of Harrison Lovegrove & Co Limited, Chairman of Zetex plc, and non-executive Director and senior independent Director of Amec plc.

**Sandy Dudgeon (48)\*\*** was appointed to the Board in 1998. He has been Managing Director of Thornhill Investment Management Limited since January 2003 when it merged with Martin Currie's Private Client business. He is a chartered accountant. In 1983 he joined Adam & Company. In 1994 he became a Director at Martin Currie, responsible for their UK mutual fund business. From 2001 to 2004 he was a non-executive Director of Man Alternative Investments Limited.

**David Gamble (62)\*\*** was appointed to the Board in 2001. From 1993 until his retirement in 2003, he was Chief Executive of British Airways Pension Investment Management Limited. He is a non-executive Director of two further investment trusts, JP Morgan Emerging Markets Investment Trust plc and Polar Capital Technology Trust Limited. He is also a Director of IBM UK Pension Trust Limited and Chairman of Hermes Property Unit Trust and holds other advisory and non executive positions.

**Willie Haughey (49)\*\*** was appointed to the Board in 2005. He is Chairman of Glasgow-based City Refrigeration Holdings Limited, a company he set up in 1985. It is now one of the UK's largest specialist refrigeration and facilities management companies. He is Chairman of Scottish Enterprise Glasgow, Chairman of Asset Skills and a non-executive Director of Glasgow Cultural Enterprises Limited.

**Simon Miller (53)** was appointed to the Board in 1999 and has been Chairman of Dunedin Capital Partners Limited since 1994. He is Chairman of Artemis Alpha Trust PLC and First State AIM VCT PLC, Deputy Chairman of JPMorgan Elect plc and a non-executive Director of Brewin Dolphin Holdings PLC.

**Bruce Patrick (60)\*\*** was appointed to the Board in 2003. He qualified as a solicitor in 1973 and became a Partner in Maclay Murray & Spens in 1976. Much of his time as a corporate lawyer was spent advising various providers of venture capital. He was Managing Partner from 1991 to 1994 and Senior Partner from 2000 until his retirement in 2003.

## The Manager



### **Ross Marshall (48)**

is the Principal Fund Director for Dunedin Enterprise and the Managing Director of Dunedin. He has been involved in over 30 MBOs and MBIs over the past 15 years, including leading negotiations for the MBO of Dunedin. Ross previously spent 10 years with 3i in Glasgow, Edinburgh and Birmingham, where he was an Investment Director for UK private equity. He joined Dunedin in 1994 as a Director.

### **Investment Strategy**

Dunedin Capital Partners Limited (“Dunedin”) is an independent private equity manager owned by its directors and staff. The company specialises in providing equity finance for MBOs. It operates throughout the UK from its offices in Edinburgh and London.

Private equity investment involves originating investment opportunities, assessing the growth prospects for these companies, negotiating an appropriate investment structure, managing and adding value to those companies and identifying the most appropriate time and route to exit through a sale or flotation.

Private equity as an asset class has shown investment return out-performance against other asset classes over the long term. This is due to active portfolio management of companies with strong management teams whose interests are closely aligned to their institutional shareholders through management having a meaningful equity stake in the companies they run. In addition, the use of appropriate levels of debt within portfolio companies increases equity returns.

The private equity market in the UK has grown significantly over the past ten years. There are now 182 full members of the British Venture Capital Association (“BVCA”) managing over £154 billion of private equity funds for investment in the UK, Continental Europe and the rest of the world.

The private equity market has become much more segmented with different funds investing in early stage venture capital, expansion capital, mid-market buyouts and very large buyouts. Dunedin Enterprise invests primarily in UK mid-market buyouts with a company value in the £10 million to £50 million range.

Dunedin Enterprise has additionally made commitments to funds managed by other private equity managers who focus upon making investments in early stage and fast growing technology companies or larger mid-market buyouts. This has resulted in a degree of diversification across other segments of the private equity market.

Dunedin is active in its approach to supporting and guiding the businesses in which Dunedin Enterprise is a shareholder. It helps define the strategic goals of these companies, whilst empowering the management teams that run them and providing additional capital for growth if it is required. Board representation is generally taken within these businesses where Dunedin Enterprise often has a significant equity stake.

Growth in the value of investments can be achieved in a number of ways. A buy and build strategy involves investing in a company and growing it through the acquisition of other complementary businesses. Sometimes it is more appropriate to pursue a strategy of rolling out additional business outlets. Some companies are able to create value through exploiting new market opportunities. Occasionally, it is possible to create value simply through buying a cash generative, stable business for a favourable price and then using cash flow to reduce debt and increase equity value.

Finding attractive opportunities that might fit one of these value growth models is time consuming and requires patience and hard work. During the year more than 230 investment proposals were considered. These were sourced throughout the UK and across a wide range of industry sectors.

Ultimately, Dunedin seeks to provide a broad based portfolio of attractive and well managed investments that spreads sector risk whilst providing real opportunities for substantial growth.

### Overview

During the year, Dunedin Enterprise continued to build upon the good progress made last year. Net asset value per share increased by 19.7% in the year from 416.3p to 498.2p (2005: 18.8%) and the net asset value total return per share over the year was 22.3% (2005: 21.7%).

Your Company's share price rose by 32.3% (2005: 34.1%) over the year from 346p to 457.75p. The total return to shareholders, comprising the rise in the share price and dividends paid, was 35.4% (2005: 38.1%). The strong share price performance resulted in a reduction of the discount of the share price to net asset value from 16.9% at 30 April 2005 to 8.1% at 30 April 2006.

The growth in net asset value has been driven by a combination of a number of successful realisations, strong trading performance and beneficial movements in price earnings multiples. The total movements in net assets can be summarised as follows:

	£'m
Net assets at 30 April 2005	126.4
Unrealised value increases	13.7
Unrealised value decreases	(12.8)
Realised profit over opening valuation	24.1
Profit attributable to shareholders	
less expenses charged to capital	2.7
Dividends paid to shareholders	(2.8)
Net assets at 30 April 2006	151.3

Dunedin Enterprise received a total of £70 million from a number of significant realisations in the year. This arose principally from the flotation of Davenham on the AIM market, the secondary buyout of Letts Filofax and the trade sale of Caledonian Building Systems.

During the year, your Manager invested £31.7 million on behalf of its clients, including £21.6 million on behalf of Dunedin Enterprise. An investment of £7.5 million was made in Zenith Vehicle Contracts, a car fleet management services company, £4.3 million in Practice Plan, a provider of payment schemes to dental practices and £4.1 million in RSL Steeper, a supplier of prosthetics and orthotics. Each of these new investments was a management buyout. An initial investment of £0.6 million was made in the LGV5 Private Equity Fund. A further £5.1 million was invested in ten existing portfolio companies.

Your Company made a £75 million commitment to the Dunedin Buyout Fund II ('DBF II') in May 2006. The fund is managed by Dunedin Capital Partners, the Manager of your Company, and follows an initial investment made in DBF I in 2001. DBF II will invest in UK mid-market buyouts with a transaction size of £10 – 50 million. This continues to be the core investment strategy of the Company.

### Realisations

Your Company received £70 million during the year from the sale of seventeen portfolio companies and the redemption of loan stock by portfolio companies. This generated a profit of £24.1 million over the valuation at the start of the year and represents an uplift of 53%.

Caledonian Building Systems ("Caledonian") was sold in April 2006 to Champion Inc USA. Caledonian is the UK market leader in pre-engineered buildings and off-site construction, specialising in the design and provision of multi-storey commercial and residential structures using steel modular systems. The company operates across the UK from a 32 acre manufacturing site in Newark, Nottinghamshire and has an annual turnover of £90 million. Your Company received capital and income of £23.6 million from the investment, a money multiple of five times original investment and an IRR of 108% over two and a half years of ownership.

In March 2006, Letts Filofax was sold in a secondary buyout to Phoenix Equity Partners for £45 million. With group headquarters based in Edinburgh, Letts Filofax designs and sells organisers, diaries and related accessories through its two UK and nine overseas subsidiaries. It has one manufacturing plant which produces over 22 million books per year. The group is firmly established as the UK market leader and exports its products to over 40 countries worldwide. Dunedin Enterprise invested, directly and via limited partnership funds, a total of £4.4 million and will have received £26.5 million in capital and income from this investment. Dunedin's investment has returned a money multiple of six times which represents an IRR of 50% over five years.

In November 2005, Davenham listed on the AIM market. Davenham is a leading independent UK asset based lender. It provides lending solutions designed to meet the financing needs of SMEs, typically involving loans of between £10,000 and £4 million. Davenham has a diverse loan portfolio, with its lending activities organised into three divisions: property finance, asset finance and trade finance. Dunedin Enterprise received net proceeds of £11.2 million on listing and retains 2,561,968 ordinary shares in Davenham Group plc valued at £8.7 million at 30 April 2006. Dunedin Enterprise has received a total of £14.1 million from this investment in capital and income which when aggregated with the value of quoted shares held gives a multiple of four times the original investment and an IRR of 33%.

C6 Solutions was a manufacturer of sophisticated fine chemicals. A number of months after the buyout of C6 a key customer of the company insourced a number of significant product lines. These product lines could not be quickly replaced by C6 and a planned closure of the business was announced in January 2005. Following the sale of property and other assets Dunedin Enterprise received £4.6 million from the closure. This compares to a valuation of nil at 30 April 2005.

Hayley Conference Centres, a provider of conference facilities, and Trident Components, a manufacturer of components for the automotive industry, were each acquired as part of the Group Trust portfolio in 2001. These investments were realised during the year generating proceeds of £3.9 million and £2.6 million respectively. This compares to valuations at 30 April 2005 of £2.5 million and £2.5 million.

### New investments

In the year to 30 April 2006, your Company invested £21.6 million (2005: £22.1 million) in three new portfolio companies, one new limited partnership fund and nine existing portfolio companies.

In June 2005, Dunedin Enterprise invested £7.5 million in the £27 million management buyout of Zenith. Zenith is a niche provider of bespoke fleet management services, normally to companies with car fleets of between 250 and 1,500 cars. The company has a strong service culture, combined with a focus on the effective use of information technology, allowing it to develop a blue chip client base which includes Asda, DuPont, Ernst & Young, Persimmon, Remploy and BUPA.

Dunedin Enterprise invested £4.3 million in the management buyout of Practice Plan in September 2005. Practice Plan is one of the UK's leading providers of independent payment schemes to dental practices. The company is involved in the creation and facilitation of healthcare maintenance schemes for healthcare professionals. These are principally aimed at the dental sector but are also used by veterinary surgeons and opticians.

In December 2005, Dunedin Enterprise invested £4.1 million in the management buyout of RSL Steeper. RSL is the UK's leading supplier of rehabilitation services with a range of prosthetics (artificial limbs), orthotic (external supports) and electronic assistive technology services (electronic devices to assist daily living).

During the year to 30 April 2006, Dunedin Enterprise made a commitment of £5 million to the LGV5 Private Equity Fund. This fund aims to invest in UK mid-market management buyouts with an enterprise value of between £60 million and £300 million. This broadens Dunedin Enterprise's exposure to mid-market buyouts. LGV5 drawdowns in the year totalled £0.6 million.

Follow-on investments into portfolio companies and drawdowns from other buyout and technology funds in the year totalled £5.1 million.

### Unrealised value movements

The table below summarises the main components of unrealised valuation movements in the year to 30 April 2006.

Three portfolio companies, CGI, Portman and Davenham have contributed a total of £11.1 million to unrealised valuation increases. The increased valuation of these companies has been generated from a combination of strong trading performance, favourable price earnings movements and quoted share price movements. The imminent sale of AIM and Blaze Signs contributed a further £1.3 million unrealised valuation increase. Five other portfolio companies contributed to the remaining £1.3 million unrealised valuation increase.

The valuation of Dunedin Enterprise's investments in Gardner, ABI, Total Fitness and New Horizons have been written down by £10.4 million during the year. Challenging market conditions have affected ABI and Total Fitness, Gardner has performed below plan and the new home opening program is taking longer than anticipated at New Horizons. At each of these companies, your Manager is actively working with management to increase profitability and return value to the investments. A further six investments contributed to the remaining £2.4 million unrealised valuation decrease principally due to a write down in value of technology funds.

	£'m	£'m
Value increases		
• Imminent realisations	1.3	
• Trading performance	2.0	
• Debt reduction	0.4	
• Price earnings movements	8.8	
• Other	1.2	
		13.7
Value decreases		
• Trading performance	(12.9)	
• Other	0.1	
		(12.8)
Net Unrealised Value Movements		0.9

### Valuation basis

Your Company's portfolio was valued on the following basis:

At 30 April	£'m	2006 %	£'m	2005 %
Cost	30.1	45	21.4	24
Earnings multiple	31.7	48	61.7	69
Imminent sale	2.5	4	4.0	4
Net asset value	2.3	3	2.7	3
	<b>66.6</b>	<b>100</b>	<b>89.8</b>	<b>100</b>

The weighted average price earnings multiple used to value your Company's portfolio at 30 April 2006 was 9.9, a discount of 32% to the FTSE All Share price earnings multiple of 14.5 on that date (2005: 7.7; 49% discount to the FTSE All Share multiple of 15.0)

### Portfolio analysis

Work has continued to be undertaken in reducing the number of investments held within the portfolio. Four new companies were added to the portfolio and seventeen companies were sold during the year.

At 30 April	No.	2006 £'m	No.	2005 £'m
Unquoted companies	19	46.9	29	78.9
Quoted companies	1	8.7	1	0.9
Buyout Fund	5	7.8	8	7.0
Technology funds	4	3.2	4	3.0
	<b>29</b>	<b>66.6</b>	<b>42</b>	<b>89.8</b>

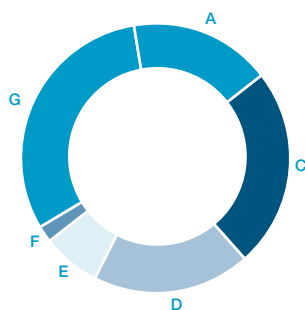
### Investment category

The table below demonstrates your Company has invested 79% of its portfolio directly in management buyouts and buyins. A further 12% is invested in management buyouts via limited partnership funds. A total of 91% of the portfolio is thus invested either directly or indirectly in management buyouts or buyins.

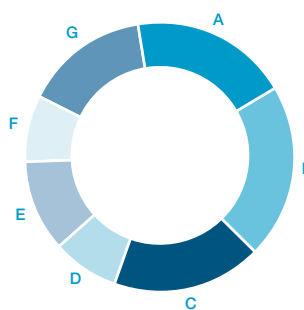
At 30 April	£'m	2006 %	£'m	2005 %
Management buyouts/buyins	52.7	79	76.9	86
Buyout funds	7.8	12	7.0	8
Technology funds	3.2	5	3.0	3
Other	2.9	4	2.9	3
	<b>66.6</b>	<b>100</b>	<b>89.8</b>	<b>100</b>

### Portfolio analysed by industry sector

The table below demonstrates that your Manager is committed to ensuring that a diversified portfolio of unquoted investments is held by your Company.



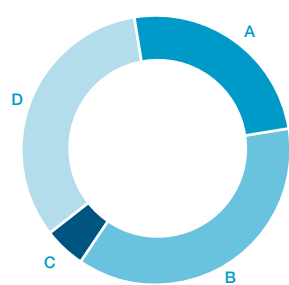
2006



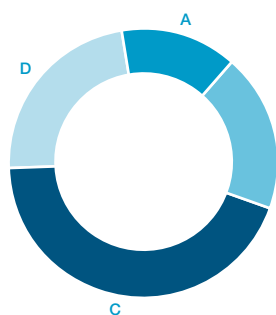
2005

	2006 %	2005 %
A Construction and building materials	17	19
B Consumer products and services	-	21
C Financial services	24	17
D Healthcare	19	9
E Leisure and hotels	7	11
F Specialist manufacturing	2	8
G Support services	31	15
	<b>100</b>	<b>100</b>

Portfolio analysed by age



2006



2005

	2006 %	2005 %
A Less than 1 year	25	14
B 1-3 years	37	19
C 3-5 years	5	44
D More than 5 years	33	23
	<b>100</b>	<b>100</b>

**Further Analysis**

Investors are able to review further information and data relating to Dunedin Enterprise at our website [www.dunedin.com](http://www.dunedin.com).

**Dunedin Capital Partners Limited**

16 June 2006

Top 10 Investments  
(held directly and via funds)

CGI Group Limited

In December 1998, Dunedin Enterprise invested £4.4 million in CGI International. In 2004, Dunedin Enterprise oversaw the £25 million recapitalisation of CGI International, resulting in the formation of CGI Group. The company, which operates from a purpose-built factory in Haydock, Merseyside, manufactures and supplies fire resistant glass to a worldwide market. Some 70% of the company's sales are made to export markets in Europe, the Far East and elsewhere. The company has been awarded the Queen's Award for Enterprise for its export achievements.

The company's principal fire glass product is Pyroguard, which features a unique, patented, wire-free fire resistant glass. This glass is particularly versatile as it can be readily cut to the desired size. This product type is increasingly demanded by international building codes and regulations.

In the year ended 31 December 2005, the audited net profit after tax of CGI Group was £1.4 million on turnover of £11.9 million. Loan interest of £267,259 was received by Dunedin Enterprise during the year to 30 April 2006 (2005: £75,639). The net assets of CGI Group at 31 December 2005 amounted to £2.1 million (2004: £0.6 million).

Percentage of equity held	37.9%
Cost of investment	£5.9 million
Directors' valuation	£11.2 million
Percentage of Dunedin Enterprise's net assets	7.4%

Davenham Group plc

In June 2000, Dunedin Enterprise invested £5.1 million to support the £60 million management buyout of Davenham. Davenham is a provider of niche, short-term lending products to growing businesses throughout the UK. It has particular expertise in trade finance, short-term property lending, sale and lease back of equipment and debt factoring. Facilities are provided in the range of £10,000 to £4 million.

Davenham is based in Manchester and has offices in Birmingham, Leeds, London, Liverpool and Newcastle. The business has continued to expand rapidly, from 35 employees in 2000 to 130 in 2005, and raised more finance in April 2002 to fund expansion over the next three years. In November 2005, Davenham successfully floated on the AIM market. Dunedin Enterprise received net proceeds of £11.2 million on listing and retains a 10.1% holding in the listed company.

In the year ended 30 June 2005, the audited net profit after tax of Davenham was £5.6 million (2004: £3.7 million) on turnover of £28.5 million (2004: £21.8 million). Dividends and loan interest of £1,000,370 were received by Dunedin Enterprise in the year to 30 April 2006 (2005: £631,794 million). The net assets of Davenham at 30 June 2005 amounted to £12.8 million (2004: £10.5 million).

Percentage of equity held	10.1%
Cost of investment	£0.2 million
Directors' valuation	£8.7 million
Percentage of Dunedin Enterprise's net assets	5.7%



### ZVC Group Limited

Dunedin Enterprise invested £7.5 million in the £27 million management buyout of ZVC Group ("Zenith") in June 2005. Zenith is a niche provider of bespoke fleet management services, normally to companies with car fleets of between 250 and 1,500 cars. The company has a strong service culture, combined with a focus on the effective use of information technology allowing it to develop a blue chip client base including Asda, DuPont, Ernst & Young, Persimmon, BUPA and logistics specialists 3663.

Zenith manages vehicles financed by third parties providing a complete outsourced fleet management service to customers which can include logistics and accident and maintenance management.

Annual results have not been reported as the investment is less than 12 months old. Dividends and loan interest of £306,604 were received by Dunedin Enterprise during the year to 30 April 2006.

Percentage of equity held	20.8%
Cost of investment	£7.5 million
Directors' valuation	£7.5 million
Percentage of Dunedin Enterprise's net assets	5.0%

### Portman Holdings Limited

Portman is the UK's largest independent travel management network, operating in the UK from over 30 offices. Worldwide, the company operates through more than 5,300 partner offices in over 90 countries, as founder shareholders in Radius, the global travel company. This smart brand of travel management has been built around a core of outstanding travel expertise, adding new services through acquisitions and joint ventures to help companies and organisations of all sizes to manage their travel budgets as efficiently as possible.

During 2005, Portman continued to focus on the development of its hotel division and on a specialised fulfillment centre to drive the implementation of online services. New initiatives aimed at enhanced customer care were developed including Portman Alerts, TripPlan and FlightTracker, a new SMS service bringing up-to-date flight delays and changes automatically to travellers' mobile phones.

In the year ended 31 December 2005, the audited net profit after tax of Portman was £1.8 million (2004: £1.3 million) on turnover of £194 million (2004: £182 million). Dividends of £275,775 were received by Dunedin Enterprise during the year to 30 April 2006 (2005: £244,677). The net assets of Portman at 31 December 2005 were £3.4 million (2004: £3.1 million).

Percentage of equity held	16.8%
Cost of investment	£2.2 million
Directors' valuation	£5.7 million
Percentage of Dunedin Enterprise's net assets	3.8%



### New Horizons (Childcare) Holdings Limited

Dunedin Enterprise invested £6.6 million in the £12 million management buyout of New Horizons in December 2004. The company provides residential childcare services for emotionally and behaviourally disturbed children, offering a range of therapeutic services to children and young people whose behaviour is the result of traumatic experiences.

In September 2005, New Horizons acquired Forward Approach, a Welsh-based operator of residential childcare homes in a £3 million transaction. As a result of the acquisition and its roll out programme, New Horizons has living accommodation for 51 children in 16 homes.

In the seven months to 30 June 2005, the audit net loss after tax of New Horizons was £0.3 million. Loan interest of £213,386 was received by Dunedin Enterprise during the year to 30 April 2006. The net asset value of New Horizons at 30 June 2006 was £0.2 million.

Percentage of equity held	31.6%
Cost of investment	£6.4 million
Directors' valuation	£5.3 million
Percentage of Dunedin Enterprise's net assets	3.5%

### Practice Plan Group (Holdings) Limited

In September 2005, Dunedin Enterprise invested £4.3 million in the management buyout of Shropshire-based Practice Plan, one of the UK's leading providers of independent payment schemes to dental practices. The company is involved in the creation and facilitation of healthcare maintenance schemes for healthcare professionals.

Practice Plan works with a dental practice in developing a patient cost plan and provides assistance in the production of marketing material and direct debit collection services on behalf of the dental practice.

While these maintenance schemes are principally aimed at the dental sector, Practice Plan offers similar services to veterinary practices and independent opticians.

Annual results have not been reported as the investment is less than 12 months old. Loan interest of £188,588 has been received by Dunedin Enterprise during the year to 30 April 2006.

Percentage of equity held	26.2%
Cost of investment	£4.3 million
Directors' valuation	£4.3 million
Percentage of Dunedin Enterprise's net assets	2.8%



### LGV 4 Private Equity Fund LP

In 2004, Dunedin Enterprise committed £5 million to the LGV4 Private Equity Fund, a partnership fund managed by Legal & General Ventures. The fund invests in European management buyouts and buyins where the typical equity investment range is £20 million to £60 million with a transaction size of between £60 million and £300 million.

The investments are made in cash generative businesses in growth markets in Legal & General Ventures' core industry sectors of consumer, leisure and services (including healthcare) and with a geographic focus of the UK and Ireland.

Percentage of equity held	2.7%
Cost of investment	£3.3 million
Directors' valuation	£4.1 million
Percentage of Dunedin Enterprise's net assets	2.7%

### RSL Steeper Holdings Limited

In December 2005, Dunedin Enterprise invested £4.1 million in the management buyout of RSL Steeper, the UK's leading supplier of rehabilitation services to the NHS including prosthetic (artificial limbs), orthotic (external supports) and electronic assistive devices and services (electronic devices to assist in daily living).

RSL operates local orthotic clinics and regional prosthetic service centres in NHS hospitals, providing clinical assessments and fitting services. Headquartered in Rochester, Kent, the company employs 450 people and manufactures a wide range of bespoke products and supplies third party standard products. In addition, RSL manufactures and markets its own range of upper limb and prosthetic cosmetic covers with a number of exclusive distribution agreements.

Annual results have not been reported as the investment is less than 12 months old. Loan interest of £36,510 has been received by Dunedin Enterprise during the year to 30 April 2006.

Percentage of equity held	28.9%
Cost of investment	£4.1 million
Directors' valuation	£4.1 million
Percentage of Dunedin Enterprise's net assets	2.7%



### Travel & General Holdings Limited

Travel & General underwrites insurance bonds for UK tour operators, issuing bonds for more travel organisers than any other insurer. The company is the only UK authorised insurer formed specifically to provide bonding to the travel industry.

In the year ended 31 October 2005, the audited net profit after tax of Travel & General was £1.9 million (2004: £1.8 million) on turnover of £6.0 million (2004: £5.1 million). Dividends of £80,281 were received by Dunedin Enterprise during the year to 30 April 2006 (2005: £58,950). The net assets at Travel & General of 31 October 2005 were £9.9 million (2004: £8.3 million).

### LGV 3 Private Equity Fund LP

In 2003, Dunedin Enterprise committed £3 million to the LGV3 Private Equity Fund, a partnership fund managed by Legal & General Ventures. The fund invests in European management buyouts and buyins where the typical equity investment range is £20 to £60 million with a transaction size of between £60 and £300 million.

The investments are made in cash generative businesses in growth markets in Legal & General Ventures' core industry sectors of consumer, leisure and services (including healthcare) with a geographic focus of the UK and Ireland.

Percentage of equity held	25.9%
Cost of investment	£0.1 million
Directors' valuation	£2.3 million
Percentage of Dunedin Enterprise's net assets	1.5%

Percentage of equity held	2.4%
Cost of investment	£ 1.7 million
Directors' valuation	£ 1.9 million
Percentage of Dunedin Enterprise's net assets	1.3%



## Long Term Record

Year ended 30 April	Revenue available for ordinary shareholders		Per Ordinary Share			
	Net assets £'000	£'000	Net asset value p	Earnings p	Dividend p	Share price p
1988	25,794	488	138.2	2.6	2.0	98.0
1989	26,323	640	141.0	3.4	3.0	88.0
1990	29,860	898	160.0	4.8	4.0	94.0
1991	27,165	885	145.6	4.7	4.5	90.0
1992	28,002	791	150.0	4.2	4.0	91.0
1993	26,181	801	140.3	4.3	4.0	107.0
1994	34,873	951	*179.9	5.1	4.2	146.0
1995	48,763	1,201	207.5	5.6	4.4	181.0
1996	58,699	2,061	245.7	8.7	7.2	207.0
1997	70,430	2,597	294.7	10.9	9.1	254.5
1998	79,746	2,698	333.7	11.3	10.0	276.0
1999	89,887	2,731	376.2	11.4	11.0	277.5
2000	99,002	2,986	414.3	12.5	11.6	320.5
2001	86,474	3,269	362.2	13.7	12.85	320.0
2002	101,840	4,115	326.5	13.5	12.85	247.5
2003	95,492	3,475	309.3	11.1	12.85	218.5
2004	105,687	2,846	344.0	9.2	8.57	258.0
2005	126,423	3,184	416.3	10.4	9.0	346.0
<b>2006</b>	<b>151,304</b>	<b>4,236</b>	<b>498.2</b>	<b>13.9</b>	<b>11.45</b>	<b>457.75</b>

\* Restated taking account of the dilution following the issue of shares as a result of the exercise of warrants on 31 August 1994. The figures prior to 2005 have not been restated for the changes in accounting policies detailed on page 40

## The Twenty Largest Investments (held directly and via funds)

Company Year end	Proportion of fully diluted capital owned %	Book cost £'000	Valuation £'000	Dividend per share p	Dividend cover
CGI Group Limited 31.12.05 <a href="#">Manufacture and supply of fire resistant glass</a>	37.9	5,941	11,217	Nil	n/a
Davenham Group plc 30.06.05 <a href="#">Provider of niche short-term lending products</a>	10.1	201	8,663	A Ord 13.7	6.3
ZVC Group Limited MBO investment made in June 2005 <a href="#">Provider of car fleet management services</a>	20.8	7,499	7,499	n/a	n/a
Portman Holdings Limited 31.12.05 <a href="#">Business travel agency</a>	16.8	2,266	5,686	A Ord 65.6 Pref 6.0	4.0 4.3
New Horizons (Childcare) Holdings Limited 30.06.05 <a href="#">Operator of children's care homes</a>	31.6	6,386	5,283	Nil	n/a
Practical Plan Group (Holdings) Limited MBO investment made in September 2005 <a href="#">Provider of dental practice payment schemes</a>	26.2	4,295	4,295	Nil	n/a
LGV4 Private Equity Fund LP 31.12.05 <a href="#">Unquoted equity partnership fund</a>	2.7	3,252	4,143	Nil	n/a
RSL Steeper Holdings Limited MBO investment made in December 2005 <a href="#">Supplier of rehabilitation services to the NHS</a>	28.9	4,109	4,109	Nil	n/a
Travel & General Holdings Limited 31.10.05 <a href="#">Underwriting of insurance bonds for UK tour operator</a>	25.9	118	2,306	Ord 18.6	6.1
LGV3 Private Equity Fund LP 31.12.05 <a href="#">Unquoted equity partnership fund</a>	2.4	1,697	1,928	Nil	n/a

Company Year end	Proportion of fully diluted capital owned %	Book cost £'000	Valuation £'000	Dividend per share p	Dividend cover
Gardner Group Limited 31.08.04 <a href="#">Manufacture of machined aerospace components</a>	24.3	5,481	1,542	Nil	n/a
AIM Group Holdings Limited 30.04.05 <a href="#">Computer systems and software design</a>	37.5	768	1,517	A Ord 8.4	n/a
ABI (UK) Group Limited 31.08.05 <a href="#">Assembly of leisure homes</a>	21.1	211	1,012	Nil	n/a
Blaze Signs International Limited 31.03.05 <a href="#">Manufacture, distribution and installation of signs</a>	41.8	4,312	984	Nil	n/a
ADD One LP 31.12.05 <a href="#">Unquoted equity partnership fund</a>	0.7	2,370	971	Nil	n/a
LGV1 Private Equity Fund LP 31.12.05 <a href="#">Unquoted equity partnership fund</a>	5.0	519	970	Nil	n/a
Advent Private Equity Fund III LP 31.12.05 <a href="#">Unquoted equity partnership fund</a>	0.7	1,658	921	Nil	n/a
Total Fitness Group Limited 31.03.05 <a href="#">Operator of leisure clubs</a>	6.2	3,527	865	Nil	n/a
First Cambridge Gateway Fund LP 31.12.05 <a href="#">Unquoted equity partnership fund</a>	6.2	1,726	737	Nil	n/a
LGV5 Private Equity Fund LP 31.12.05 <a href="#">Unquoted equity partnership fund</a>	2.5	613	613	Nil	n/a

Dunedin Enterprise is managed by Dunedin Capital Partners Limited ("Dunedin"). Dunedin is authorised and regulated by the Financial Services Authority. All enquiries in relation to Dunedin Enterprise, other than those related to Alliance Trust or Aberdeen Asset Managers products, should be directed to Dunedin at: 10 George Street, Edinburgh, EH2 2DW.

The Company's share price appears under the heading 'Investment Companies' in The Financial Times, The Daily Telegraph, the Daily Mail, the Evening Standard and The Herald. Prices are also available on the Company website [www.dunedinenterprisetrust.co.uk](http://www.dunedinenterprisetrust.co.uk) or on various websites such as [www.trustnet.com](http://www.trustnet.com).

Investors can buy and sell shares in an investment trust directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. However, in order to facilitate investment in the Company, arrangements have been put in place for Dunedin Enterprise to be part of the Alliance Trust and Aberdeen Asset Managers ("Aberdeen") saving products.

Details of the Aberdeen savings products are noted below:

**The Aberdeen Share Plan** (the "Plan") offers a simple means of investing in Dunedin Enterprise. 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 Aberdeen 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.

Aberdeen offers both a Mini and Maxi stocks and shares ISA, through which shares in Dunedin Enterprise can be purchased.

**Maxi ISA** - An investment of up to £7,000 in Dunedin Enterprise can be made in the tax year 2006/2007.

**Mini ISA** - Aberdeen offers a Mini ISA which will enable investors to invest up to £4,000 in the tax year 2006/2007.

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 monthly and deducted from income half yearly. Under current legislation, investments in ISAs can grow free of capital gains tax.

**PEP Transfer** - PEPs are an easy way to make medium and long term tax efficient investments in the stock markets. All capital gains are free of tax. Since 5 April 1999 no further subscriptions can be made into a PEP. You can however transfer existing PEPs to Aberdeen. The minimum lump sum for a PEP transfer is £1,000 and is subject to a minimum per trust of £250.

**Pension** - the Edinburgh Fund Managers Investment Trust Pension enables investors to save for retirement by investing in Dunedin Enterprise. Contributions can be made regularly or by lump sums.

To obtain further information about any of the above plans, please call the Aberdeen brochure request service free of charge on 0500 00 40 00, email [aam@lit-request.com](mailto:aam@lit-request.com) or visit [www.invtrusts.co.uk](http://www.invtrusts.co.uk)

For information and transfer and enquiries relating to existing holdings please contact:

**Aberdeen Investment Trust Administration**

Block C  
Western House  
Lynchwood Business Park  
Peterborough PE2 6BP  
Telephone 0500 00 00 40  
Email [inv.trust@aberdeen-asset.com](mailto:inv.trust@aberdeen-asset.com)

For information and application forms on the Pension plan and enquiries relating to existing holdings please contact:

**Pension Administrator**

Edinburgh Pension Centre  
Capita SIP Services  
141 Castle Street  
Salisbury, Wiltshire SP1 3TB  
Telephone 0800 137 079

To obtain further information about the Alliance Trust savings plan please contact:

**Alliance Trust Savings Limited**

PO Box 164  
Meadow House  
64 Reform Street  
Dundee  
DA1 9YP

Telephone 01382 201900  
Email [contact@alliancetrust.co.uk](mailto:contact@alliancetrust.co.uk)

**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 trust shares 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/PEPs, may be changed by future legislation.
- Investments made in smaller companies or specialist sectors such as technology related stocks can be more volatile than investments in developed markets and more established companies, and above average price movements can be expected.
- Exposure to a single country market also increases potential volatility.
- An investment trust which gears may have a more volatile share price than one which does not.
- There is no guarantee that the market price of investment trust shares will fully reflect their underlying Net Asset Value.

The information on pages 22 and 23 is issued and has been approved for the purposes of Section 21 (Restrictions on Financial Promotion) of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited which is authorised and regulated in the UK by the Financial Services Authority.

## Corporate Information

### **Directors**

Edward Dawney, Chairman  
Liz Airey  
Sandy Dudgeon  
David Gamble  
Willie Haughey  
Simon Miller  
Bruce Patrick

### **Manager, Secretary & Registered Office**

Dunedin Capital Partners Limited  
10 George Street  
Edinburgh EH2 2DW  
Tel 0131 225 6699  
Fax 0131 718 2300  
Email [info@dunedin.com](mailto:info@dunedin.com)  
Website [www.dunedin.com](http://www.dunedin.com)  
Registered No. 52844 Scotland

### **Registrar**

Lloyds TSB Registrars Scotland  
PO Box 28448  
Finance House  
Orchard Brae  
Edinburgh EH4 1WQ  
Tel 0870 601 5366

### **Bankers**

Bank of Scotland

### **Solicitors**

Dundas & Wilson CS LLP

### **Auditors**

KPMG Audit Plc

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The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 30 April 2006.

### Business Review

#### Objective and investment strategy

Dunedin Enterprise carries on business as an investment trust. The Company's objective is to achieve substantial long term growth in shareholder assets through capital gains from its assets. This is achieved by investing in a portfolio of unquoted UK companies. Investments are structured primarily with a view to capital growth but also for income yield.

The Company may also from time to time hold a limited number of investments which are quoted on a recognised stock exchange, usually as a result of investee companies which were originally unquoted achieving a public listing.

#### Investment Strategy

The Company's investment strategy is detailed on page 7 of the Annual Report.

#### Performance

A number of performance measures are considered by the Board and the Manager in assessing the Company's success in achieving its objectives.

The key performance indicators ('KPI's') used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- The movement in net asset value per ordinary share
- The movement in share price
- The movement of net asset value and share price performance compared to the Benchmark
- Total expense ratio

Details of the KPI's are shown on pages 1 and 19.

The Board recognises that it is in the long term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance. As outlined in the Directors' Report on page 29, the Board intends to seek renewal of its annual share

buy-back authority. The Board does not intend to issue a precise discount target at which shares will be bought back as it believes that the announcement of specific targets is likely to hinder rather than help the successful execution of a buyback policy.

#### Current and future development

A review of the main features of the year is contained in the Chairman's Statement and the Manager's Review on pages 4 to 5 and 8 to 13 respectively.

The Board's main focus is on the long term investment return. Attention is paid to the integrity and success of the investment process and on factors which may have an impact on this approach. The Board regularly reviews the development and strategic direction of the Company. Due regard is given to the marketing and promotion of the Company, including effective communication with shareholders and other external parties.

#### Risk Management

The majority of the Company's investments are in unquoted companies, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The Directors aim to limit the risk attaching to the portfolio as a whole by careful selection and timely redistribution of investments, and by monitoring a spread of holdings in terms of financing stage and industry sector. The Board reviews the investment portfolio with the Manager on a regular basis.

Risks facing the Company include credit and investment risk, liquidity risk, currency risk, price risk and interest rate risk. An explanation of these risks and how they are managed is contained in Note 22 to the financial statements on page 48.

#### Financials

The financial highlights for the year under review are as follows: the net asset value per share increased by 19.7% during the year, compared to an increase in the benchmark of 25.0%, dividends increased by 5% to 9.45p per share and when the proposed special dividend of 2.0p is included the increase is 27.2%. The discount of the share price to net asset value decreased from 16.9% at 30 April 2005 to 8.1% at 30 April 2006.

In the year under review, the Company has had to comply with a number of new Financial Reporting Standards which were introduced as part of the UK convergence programme with International Financial Reporting Standards. The main changes to the Company's financial statements are that dividends declared after the period end are no longer treated as a liability at the period end and quoted investments are valued at bid prices. These changes are explained in more detail in Note 2 on page 40.

#### **Dividends**

The Board recommends a final dividend of 7.45p and a special dividend of 2.0p which, together with the interim of 2.0p already paid, makes a total of 11.45p for the year compared with 9.0p for the previous year.

If approved, the recommended final and special dividend on ordinary shares will be paid on 15 September 2006 to shareholders on the register at close of business on 18 August 2006. The ex-dividend date is 16 August 2006.

#### **Status**

The Company is an investment company within the meaning of section 266 of the Companies Act 1985.

The Company carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 April 2005. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek authorisation under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 30 April 2005 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company is not a close company for taxation purposes.

#### **Directors**

The Directors of the Company are listed on page 6. Edward Dawnay and Simon Miller will retire at the Company's Annual General Meeting ('AGM') and, being eligible, offer themselves for re-election. They have been Directors of the Company for eleven and seven years respectively. They each have broad business and investment management experience as detailed on page 6.

Edward Dawnay was appointed on 27 January 1995. The Combined Code on Corporate Governance recommends that any non-executive director serving for longer than nine years be subject to annual re-election. The Board subscribes to the view expressed in the AITC Code that long serving Directors should not be prevented from being considered as independent. The Board believes that Edward Dawnay retains independence of character and judgement and his skills and experience add to the strength of the Board.

In accordance with the requirements of the Listing Rules of the Financial Services Authority, as Simon Miller is a director of the Company's investment manager, he is subject to annual re-election by shareholders.

The re-election of Edward Dawnay and Simon Miller is recommended to shareholders.

During the year an insurance policy has been maintained by the Company which indemnifies the Directors of the Company against potential liabilities arising in the conduct of their duties.

**Directors' Interests**

The interests of those persons who were Directors at the end of the year in the ordinary shares of the Company were as follows (all holdings are beneficial unless stated otherwise):

	30 April 2006	30 April 2005
Edward Dawnay	6,328	4,677
Liz Airey	5,000	-
Sandy Dudgeon	4,000	4,000
David Gamble	5,000	5,000
Willie Haughey	11,000	-
Simon Miller	3,000	3,000
Bruce Patrick	2,000	2,000

No notification of any change in the above interests has been received in the period from 30 April 2006 to the date of this report.

**Investment Manager**

The principal terms of the Company's management agreement with Dunedin Capital Partners Limited ("Dunedin") are set out in Note 5 to the financial statements.

The Board has thoroughly reviewed Dunedin's investment strategy and process. The review covered the performance of the investment managers, their management process, investment style, resources and risk controls. The Board is satisfied with the results of the review and is therefore of the opinion that the continuing appointment of Dunedin on the terms agreed is in the interests of shareholders as a whole. Such a review is carried out on an annual basis.

Dunedin Enterprise operates a co-investment scheme for Dunedin executives. Under the Scheme, selected executives invest their own funds in ordinary shares (and, on occasion, other financial instruments) alongside Dunedin Enterprise. Co-investment schemes are a common feature in the private equity sector. Details of the Scheme are shown on page 49.

Simon Miller is an executive director of Dunedin and shareholder in its parent company, Dunedin Capital Group Limited. As such, Simon Miller has an interest in the management agreement.

**Substantial Interests**

The Company is aware that the following shareholders had an interest in 3% or more of the issued share capital of the Company on 16 June 2006.

	Ordinary shares	% of issued share capital
Legal & General Assurance Society	8,236,543	27.1
British Airways Pension Trustees Limited	1,729,769	5.7
The Standard Life Assurance Company	1,505,239	5.0

### **Charitable and Political Donations**

The Company made no political or charitable donations during the year.

### **Creditor Payment Policy**

The Company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. There were no amounts owing to trade creditors at 30 April 2006.

### **Disclosure of Information to Auditors**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Annual General Meeting ("AGM")**

The AGM of the Company will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh, EH2 2EP on Tuesday 12 September 2006 at 12 noon. Notice of the AGM is given on page 50 of this report. Set out below is an explanation of resolutions 8 to 11 to be considered at the AGM.

#### *Authority of directors to allot shares*

Resolution 8 to be proposed at the AGM relates to the issue of shares. Resolution 8 contains a renewal for a period up to the conclusion of the AGM of the Company in 2007 (or, if earlier, the date falling 15 months from this year's AGM) of the disapplication of shareholders' pre-emption rights granted to the Directors on 7 September 2005. If approved, this resolution would empower the Directors to issue shares for cash without applying pre-emption rights if the issue were made either in connection with a rights issue or other pro rata offer or would not exceed 5% of the issued share capital as at the date of the notice convening the AGM. The Directors do not have any immediate plans to make use of this authority.

#### *Authority to disapply pre-emption rights*

Resolution 9 grants Directors the authority to allot ordinary shares up to a maximum amount equal to one-third of the Company's existing issued ordinary shares. The authority will expire at the conclusion of the AGM of the Company in 2011. The Directors do not intend to allot ordinary shares pursuant to this power other than to take advantage of opportunities in the market as they arise and only if they believe it to be advantageous to the Company's existing shareholders to do so.

#### *Authority to buy back shares*

The Directors' authority to buy back shares for cancellation was renewed at last year's AGM, and will expire on 12 September 2006. This authority, if conferred, will only be exercised if, in the Directors' opinion, a repurchase would be in the best interests of shareholders as a whole and would result in an increase in the net asset value per ordinary share for those remaining shareholders. The Directors are proposing to renew the authority at the forthcoming AGM, and are seeking authority to purchase up to 4,555,491 ordinary shares (being 14.99% of the issued share capital). This authority will expire at the conclusion of the AGM of the Company in 2007 (or, if earlier, the date following 15 months from this year's AGM). Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing net asset value per ordinary share. Under the Listing Rules of the Financial Services Authority, the maximum price that can be paid is 5% above the average of the market values of the ordinary shares for the five business days before the purchase is made. The minimum price that may be paid will be 25p per share (being the nominal value of a share). Ordinary shares that are purchased will be cancelled. In making purchases, the Company will deal only with member firms of the London Stock Exchange.

#### *Indemnities to Directors and Officers*

As many shareholders will be aware, certain changes were made to company law last year to extend the ability of a company to provide indemnities to directors and officers in certain circumstances. The Board is therefore proposing to amend and update the Company's Articles of Association to reflect these changes and take account of current practice. The text of the amended provisions is set out in Special Resolution 11 in the Notice of AGM on page 50.

Your Directors consider that all the resolutions set out in the Notice of Annual General Meeting given on pages 50 to 51 are in the best interests of shareholders and recommend that shareholders vote FOR all the resolutions, as they intend to do in respect of their own beneficial holdings.

If you cannot attend the AGM, you are strongly encouraged to exercise your right to vote on the business of the AGM by appointing a proxy to vote on your behalf according to your instructions

### **Independent Auditors**

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution re-appointing them and authorising the Directors to fix their remuneration will be proposed at the AGM.

By order of the Board,  
**Dunedin Capital Partners Limited**  
Secretary  
Edinburgh  
16 June 2006

## Corporate Governance Report

The Company is committed to high standards of corporate governance. The Company's ordinary shares are admitted to the UK Listing Authority's Official List and traded on the London Stock Exchange. As such, the Company is required to make a disclosure statement concerning its application of the principles of and compliance with the provisions of the Combined Code on corporate governance published by the Financial Reporting Council in July 2003 (the "Combined Code"). The Board has put in place a framework for corporate governance which it believes is suitable for an investment trust and which enables the Company to comply with the Combined Code and the AITC Code of Corporate Governance revised in February 2006.

The Board considers that the Company has complied with the provisions contained in Section 1 of the Combined Code throughout this accounting period with the exception of the matters noted below.

### The Board

The Board consists of seven non-executive Directors, six of whom the Company deems to be independent, even though one of them has served as a Director for over nine years. Their biographies, on page 6, highlight their wide range of business experience. The Board does not feel that it would be appropriate to adopt a policy whereby Directors serve for a limited period as the historical knowledge of the portfolio is a key benefit. The structure of the Board is such that it is considered unnecessary to identify a senior non-executive Director other than the Chairman.

The Board determines the strategic direction of the Company. It meets at least four times a year and there is regular contact with the investment manager between these meetings. The Board has a formal schedule of matters specifically reserved for discussion. The schedule of matters is reviewed regularly by the Board. The Directors also have access to any information, the advice and services of the company secretary and, if required, external advice at the expense of the Company.

There is a clear division of responsibility between the Board and the investment manager. The investment manager's role is defined within the investment management agreement. The Board and investment manager have agreed clearly defined investment criteria and specific levels of authority. Reports on these issues, including performance statistics, investment valuations and management accounts are submitted to the Board at each meeting. The investment manager's evaluation procedure and financial analysis of the companies within the portfolio includes detailed research and appraisal, and also takes into account environmental policies and other business issues.

The Directors retire by rotation at every third AGM or more frequently as required by the rules of the UK Listing Authority or Codes on Corporate Governance. Any Directors appointed to the Board since the previous AGM also retire and stand for election. Directors who reach the age of 70 retire at the next AGM of the Company.

The Board undertakes a formal annual evaluation of its own performance and that of its committees and individual Directors, including the Chairman. The Board as a whole meets to assess its own performance and that of its Committees. The Chairman undertakes an appraisal of each Director to assess their performance. The performance of the Chairman is assessed by all other members of the Board. The appraisals consider, amongst other things, the balance of skills of the Board, the contribution of individual Directors and the overall effectiveness of the Board and its committees.

The table below details the number of Board, Audit and Management Engagement Committee and Remuneration Committee meetings attended by each Director. During the year there were four Board meetings, two Audit and Management Engagement Committee meetings, one Remuneration Committee meeting and no Nomination Committee meetings.

Director	Board meetings attended	Audit and Management Engagement Committee meetings attended	Remuneration Committee meetings attended
Edward Dawney	4	2	1
Liz Airey	4	2	1
Sandy Dudgeon	4	2	1
David Gamble	4	2	1
Willie Haughey	3	1	1
Simon Miller	4	n/a	n/a
Bruce Patrick	4	2	1

### **Board Committees**

The Board has appointed two committees, the Audit and Management Engagement Committee and the Nomination Committee.

The Audit and Management Engagement Committee comprises the independent non-executive Directors. Whilst the Combined Code recommends that the chairman of the Company should not be an Audit and Management Engagement Committee member, Edward Dawnay is chairman of the committee. The Directors believe that it is in the best interests of the Company that Edward Dawnay, a chartered accountant, chairs this committee. The committee has defined terms of reference and plays an important role in reviewing the quality of financial reporting and Dunedin Capital Partners' ("Dunedin") internal controls. Its responsibilities are:

- to review the interim and annual financial statements, matters relating to accounting policy, and the control of the financial and business risks affecting the Company;
- to review the nature and scope of the work to be performed by the external auditors;
- to make recommendations as to the appointment and remuneration of the external auditors;
- to develop and implement a policy on the engagement of the auditors to provide non audit services and review of such fees in light of independence;
- to perform an annual evaluation of the independence, objectivity, effectiveness, resources and qualifications of the auditors; and
- to review annually and advise the Board on the terms of the investment management agreement.

The Audit and Management Engagement Committee meets privately with the external auditors. Senior representatives of the Dunedin management team attend the Audit and Management Engagement Committee meetings as appropriate. The terms of reference of the Audit and Management Engagement Committee include all matters indicated by the Combined Code and are available from the Company Secretary.

The Nomination Committee has defined terms of reference and is responsible for identifying and nominating to the Board new Directors and for considering whether existing Directors should be re-elected. The Nomination Committee aims to maintain an appropriate balance of skills and experience within the Board. The terms of reference for the Nomination Committee are available from the Company Secretary.

The Nomination Committee comprises the independent non-executive Directors and is chaired by Edward Dawnay, except on those occasions when the Committee is reviewing the performance of the Chairman. In such circumstances, the Nomination Committee elects an alternative member to take the Chair.

### **Internal Controls**

The Directors have overall responsibility for ensuring that there are in place systems of internal control, both financial and non-financial and for reviewing their effectiveness. The purpose of the internal financial controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable. Such a system can provide reasonable, but not absolute assurance against material misstatement or loss. The Board regularly reviews financial performance and results with the Manager.

#### **Review of internal controls**

The Combined Code requires Directors to review and report to shareholders on the Company's system of internal control, including financial, operational and compliance controls and risk management.

The Board confirms that since 1 May 2005 to the date of this report, appropriate procedures to review the effectiveness of the Company's system of internal control have been in place which cover all controls including financial, operational and compliance controls and risk management.

These procedures include an ongoing process for monitoring internal controls. This assessment includes a review of the significant risks faced by the Company and an assessment of their impact and likelihood. In addition, an assessment of the effectiveness of internal controls in managing risks is conducted based on control reports received from the Manager and other relevant service providers. Other than as disclosed above, the Company has complied with the provisions set out in Section 1 of the Combined Code throughout the financial year ended 30 April 2006.

The Company does not have an internal audit function. All of the Company's management functions are delegated to the Manager which has its own internal control and risk monitoring arrangements. A report on these arrangements is prepared by the investment manager and submitted to the Audit and Management Engagement Committee. The report is reviewed by Ernst & Young.

The Audit and Management Engagement Committee has reviewed the provision of non-audit services and believes them to be cost effective and not an impediment to the auditors' objectivity and independence. The non-audit services for the financial year ended 30 April 2006 comprised the provision of taxation and accounting advice at a cost of £34,000, as detailed in Note 6 to the accounts and is not of a material nature.

The Company does not have a whistleblowing policy and procedure in place. The Company delegates its main functions to third party providers who have such policies in place and the Audit and Management Engagement Committee is happy to accept that these policies meet the industry standards.

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the management company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Relations with Shareholders

All shareholders have the opportunity to attend and vote at the AGM. The notice of the AGM sets out the business of the meeting and any item not of an entirely routine nature is explained in the Directors' Report on pages 26 to 29. Separate resolutions are proposed for substantive issues. Both the Board and representatives of the investment manager are available to answer shareholders' questions at the AGM. Proxy voting figures are announced to the shareholders at the AGM.

The investment manager holds regular discussions with major shareholders, the feedback from which is greatly valued by the Board. In addition, the Chairman and Directors are available to enter into dialogue and correspondence with shareholders regarding the progress and performance of the Company. The section entitled "Information for Investors", on pages 22 and 23, provides an overview of useful information available to shareholders.

### Membership of Board Committees

#### Audit and Management Engagement Committee

Edward Dawnay (Chairman)  
Liz Airey  
Sandy Dudgeon  
David Gamble  
Willie Haughey  
Bruce Patrick

#### Nomination Committee

Edward Dawnay (Chairman)  
Liz Airey  
Sandy Dudgeon  
David Gamble  
Willie Haughey  
Bruce Patrick

## Directors' Remuneration Report

The Company presents the Directors' Remuneration Report for the year ended 30 April 2006. A resolution to approve the report will be proposed at the AGM.

The Company's independent auditors, KPMG Audit Plc, are required to give their opinion on certain information included in this report, as indicated below. Their report on these matters is set out on page 34.

### Remuneration Committee

The Board currently comprises seven non-executive Directors. The Board (with the exception of Simon Miller) fulfils the function of a Remuneration Committee.

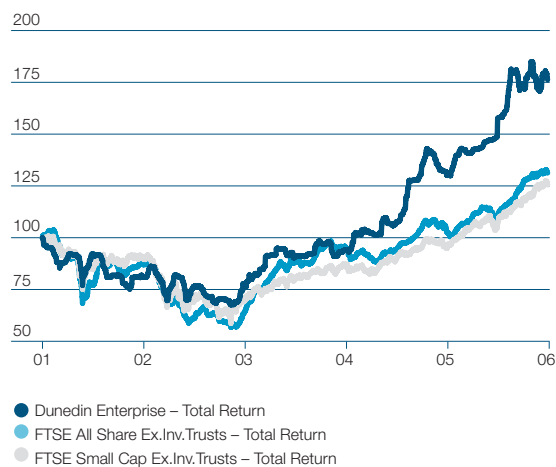
The Company's Articles of Association currently limit the aggregate fees payable to the Board of Directors to a total of £200,000 per annum. It is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil, and the time committed to the Company's affairs.

It is not the Company's policy to include an element of performance related pay. It is not the Company's policy to provide service contracts for its non-executive Directors. No non-executive Director has a service contract with the Company.

During the year the Remuneration Committee resolved to increase the remuneration of the Chairman to £28,000 per annum from £25,000 and the remuneration of other Directors to £18,000 per annum from £15,000. The increase in remuneration was made to reflect the greater time commitment required from non-executive directors in dealing with Company matters and increased levels of fees payable to non-executive directors in the industry generally.

### Performance Graph

The Company's share price performance is measured against the FTSE Small Cap Index and the FTSE All Share Index.



Performance record rebased to 100 at 30 April 2001  
Source: Thomson Datastream

### Directors' remuneration

	2006 £'000	2005 £'000
Edward Dawnay	26	25
Liz Airey	16	5
Sandy Dudgeon	16	15
David Gamble	16	15
Willie Haughey	16	5
Stefan Kay	-	5
Simon Miller	16	15
Bruce Patrick	16	15
	<b>122</b>	<b>100</b>

The information in the above table has been audited. Included in the above are fees totalling £16,000 payable to Dunedin Capital Partners Limited, the Company's investment manager, for making available the services of Simon Miller as a Director of the Company.

By order of the Board,  
**Dunedin Capital Partners Limited**  
Secretary  
16 June 2006

**To the members of Dunedin Enterprise Investment Trust PLC**

We have audited the financial statements of Dunedin Enterprise Investment Trust PLC for the year ended 30 April 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholder Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 32.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Manager's Review that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement on pages 30 to 32 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, 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 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. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 April 2006 and of its profit for the year then ended;
- 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; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc**

Chartered Accountants  
Registered Auditor  
Edinburgh  
16 June 2006

## Income Statement

For the year ended 30 April							Restated 2005 Total £'000
	Notes	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capital £'000	
Gains on investments		-	24,982	24,982	-	20,460	20,460
Income	4	6,200	-	6,200	5,387	-	5,387
Investment management fee	5	(743)	(2,022)	(2,765)	(636)	(1,799)	(2,435)
Other expenses	6	(558)	-	(558)	(498)	-	(498)
<b>Net return before finance costs and tax</b>		<b>4,899</b>	<b>22,960</b>	<b>27,859</b>	<b>4,253</b>	<b>18,661</b>	<b>22,914</b>
Interest payable and similar charges	7	(54)	(161)	(215)	(62)	(185)	(247)
<b>Return on ordinary activities before tax</b>		<b>4,845</b>	<b>22,799</b>	<b>27,644</b>	<b>4,191</b>	<b>18,476</b>	<b>22,667</b>
Tax on ordinary activities	8	(609)	609	-	(1,007)	1,007	-
<b>Return attributable to equity shareholders</b>		<b>4,236</b>	<b>23,408</b>	<b>27,644</b>	<b>3,184</b>	<b>19,483</b>	<b>22,667</b>
Basic return per ordinary share	10	<b>13.9p</b>	<b>77.1p</b>	<b>91.0p</b>	10.4p	63.7p	74.1p

The column of this statement headed 'Total' represents the profit and loss account of the Company. The Company had no recognised gains or losses other than those recognised in the Income Statement.

The financial statements for the year to 30 April 2005 have been restated to reflect the changes to accounting practices as set out in the accompanying notes. All revenue and capital items in the above statement derive from continuing operations. The accompanying notes are an integral part of the financial statements.

## Balance Sheet

At 30 April					
	Notes	£'000	2006 £'000	£'000	Restated 2005 £'000
Investments at fair value through profit or loss	11		144,847		110,244
Investment in subsidiary			-		14,000
<b>Current assets</b>					
Debtors	12	196		1,130	
Cash at bank		6,371		1,147	
		6,567		2,277	
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	13	(110)		(98)	
<b>Net current assets</b>			6,457		2,179
<b>Net assets</b>			151,304		126,423
<b>Capital and reserves</b>					
Called up share capital	15		7,592		7,592
Share premium account	16		47,600		47,600
Capital reserves:					
Capital redemption reserve	16		334		334
Capital reserve – realised	16		87,978		51,709
Capital reserve – unrealised	16		1,598		14,459
Revenue reserve	16		6,202		4,729
<b>Total equity shareholders' funds</b>			151,304		126,423
<b>Net asset value per share</b>	17		498.2p		416.3p

The financial statements were approved by the Board of Directors on 16 June 2006.

**Edward Dawnay, Chairman**

The notes on pages 39 to 48 form part of the financial statements.

## Cash Flow Statement

For the year ended 30 April	Notes	£'000	2006 £'000	£'000	2005 £'000
Net cash inflow from operating activities	18		<b>3,824</b>		2,258
<b>Financial Investment</b>					
Purchase of investments		<b>(21,645)</b>		(22,126)	
Purchase of 'AAA' rated money market funds		<b>(57,518)</b>		(16,836)	
Sale of investments		<b>70,015</b>		36,499	
Sale of 'AAA' rated money market funds		<b>10,600</b>		6,000	
<b>Net cash inflow from financial investment</b>			<b>1,452</b>		3,537
<b>Equity dividends paid</b>			<b>(2,763)</b>		(2,626)
<b>Net cash inflow before financing</b>			<b>2,513</b>		3,169
<b>Financing</b>					
Interest paid		<b>(215)</b>		(247)	
Purchase of ordinary shares		-		(1,210)	
Currency loan reduction		-		(1,432)	
			<b>(215)</b>		(2,889)
Cash assumed on liquidation of subsidiary			<b>2,926</b>		-
<b>Increase in cash for the period</b>			<b>5,224</b>		280
<b>Reconciliation of net cash flow to movement in net funds</b>					
Increase in cash as above			<b>5,224</b>		280
Cash at bank and in hand at 1 May			<b>1,147</b>		867
<b>Cash at bank and in hand at 30 April</b>			<b>6,371</b>		1,147

The notes on pages 39 to 48 form part of the financial statements.

## Reconciliation of movements in shareholders' funds

For the year ended 30 April 2006	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue account £'000	Total £'000
At 30 April 2005 (as previously stated)	7,592	47,600	334	66,079	2,573	124,178
Removal of discount on listed investments	-	-	-	89	-	89
Reversal of provision for final dividend	-	-	-	-	2,156	2,156
At 30 April 2005 (as restated, see Note 3)	7,592	47,600	334	66,168	4,729	126,423
Net return from ordinary activities	-	-	-	23,408	4,236	27,644
Dividends paid	-	-	-	-	(2,763)	(2,763)
At 30 April 2006	7,592	47,600	334	89,576	6,202	151,304
At 30 April 2004 (as previously stated)	7,680	47,600	246	47,895	2,113	105,534
Reversal of provision for final dividend	-	-	-	-	2,058	2,058
At 30 April 2004 (as restated, see Note 3)	7,680	47,600	246	47,895	4,171	107,592
Net return from ordinary activities	-	-	-	19,483	3,184	22,667
Dividends paid	-	-	-	-	(2,626)	(2,626)
Purchase and cancellation of shares	(88)	-	88	(1,210)	-	(1,210)
At 30 April 2005	7,592	47,600	334	66,168	4,729	126,423

### 1. Accounting basis and policies

#### a. Accounting convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") and the Statement of Recommended Practice ("SORP") "Financial Statements of Investments Trust Companies", revised in December 2005.

The adoption of the new UK Financial Reporting Standards which became mandatory for the year ended 30 April 2006 has resulted in a number of changes in accounting policy, the effect of which is set out in Note 2.

#### b. Associated undertakings

Those private equity investments that may be termed associated undertakings are carried at fair value in accordance with the Company's normal policy and are not equity accounted as required by the Companies Act 1985. The Directors consider that, as these investments are held as part of the Company's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Company's interests in these investments. The quantification of the effect of this departure is not practicable. The policy to continue to investment account is specifically permitted under FRS 9 "Associates and Joint Ventures", where private equity entities hold investments as part of a portfolio.

#### c. Investment income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend basis. Dividends receivable on equity shares where no ex-dividend date is applicable are brought into account when the Company's right to receive payment is established. Interest income is accounted for on an effective yield basis except where there is uncertainty as to whether the interest will be received. Franked investment income is reported net of tax credits in accordance with FRS 16 "Current Tax".

#### d. Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to the revenue return within the income statement except that:

- expenses which are incidental to the acquisition or disposal of an investment are charged to capital return as incurred,
- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments can be demonstrated, and accordingly the investment management fee and finance costs have been allocated 25% to revenue and 75% to capital in order to reflect the Directors' expected long term view of the nature of the investment returns of the Company.

#### e. Valuation policy

The Company's investments have been designated by the Directors as fair value through profit or loss and are carried at fair value as determined by the Directors. Listed investments are valued at bid price.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and are then transferred to the unrealised capital reserve.

Gains or losses on investments realised in the year that have been recognised in the income statement are transferred to the realised capital reserve. In addition, any prior unrealised gains or losses on such investments are transferred from the unrealised capital reserve to the realised capital reserve on disposal of the investment. Further, the proportion of investment management fee and finance costs taken to capital are recognised in the realised capital reserve.

Investments are valued by the Directors, as advised by the Investment Manager, at fair value according to the following rules and also with appropriate regard to UK GAAP and the International Private Equity and Venture Capital Valuation Guidelines.

All unquoted investments are valued according to one of the following bases:

- i) cost,
- ii) earnings multiple,
- iii) open market value, or
- iv) net assets.

Investments are only valued at cost for a limited period after the date of acquisition, otherwise investments are valued on one of the other bases detailed above. Generally the earnings multiple basis of valuation will be used. When valuing on an earnings multiple basis, fully taxed maintainable earnings are multiplied by an appropriate price/earnings multiple. This is normally related to a comparable quoted sector with adjustments made for risks and earnings growth prospects of the underlying company. A marketability discount, generally in the range of 10% to 30% is applied to the investment valuation, based on the likely timing of exit and the influence over that exit.

When investments have obtained an exit (either by listing or trade sale) after the valuation date but before finalisation of the relevant accounts (interim or final), the valuation is based on the exit valuation.

#### f. Taxation

Corporation tax payable is provided on taxable profits at the current rate. Any tax relief obtained on expenses is allocated between capital and revenue on the assumption that expenses charged to revenue are matched first against taxable revenue items. Tax relief is only reflected in capital to the extent that additional expenses are utilised from capital to reduce or eliminate the Company's tax liability.

Deferred taxation is provided on the liability method on all timing differences, calculated at the rate at which it is estimated that tax will be payable. A deferred tax asset is not set up for unrelieved management expenses which are not expected to be recovered against future profits.

#### g. Dividend

Dividends payable are recognised as a distribution and recorded in the Reconciliation of Movements in Shareholders' Funds when they become a liability of the Company.

## 2. Major differences under the revised requirements of UK GAAP

The Company is required to comply with a number of new UK Financial Reporting Standards ("FRS") which now represent UK GAAP, in presenting its financial statements for the year ended 30 April 2006. These standards have been introduced as part of the process of aligning UK Accounting principles with International Accounting Standards. The revised accounting policies differ from those used in preparing the annual financial statements for the year ended 30 April 2005 in the following respects.

Adjustments to comparative balance sheets

(i) Dividends are not recognised as a liability in the balance sheet until declared. Therefore the final dividends accrued in respect of the years ended 30 April 2004 and 2005 have been eliminated from the respective balance sheets and are now included in the reconciliation of movements in shareholder funds in the periods in which they were declared.

(ii) Listed investments which were previously reported at mid-market value with a marketability discount where appropriate are valued at bid price.

All comparatives have been restated accordingly.

## 3. Reconciliation of income statement

The analysis below shows a reconciliation of net assets and profit as previously reported under UK GAAP to the revised net assets and profit under the current UK GAAP requirements.

Reconciliation of income statement	Year to 30 April 2005 £'000	
Transfer to reserves as previously reported	19,854	
Adjustment for removal of discount	89	
Add back the dividend	2,724	
Revenue return after tax restated	22,667	

Reconciliation of balance sheets	30 April 2005 £'000	30 April 2004 £'000
Net asset value as previously stated	124,178	105,534
Removal of discount on listed financial investments	89	-
Reversal of provision for final dividend	2,156	2,058
Restated net asset value	126,423	107,592

#### 4. Income

	2006 £'000	2005 £'000
Franked investment income – UK	2,701	1,374
Unfranked investment income – UK	1,599	2,118
Unfranked investment income – Overseas	101	94
Limited partnership income – UK	15	77
'AAA' rated money market funds	1,504	836
	<b>5,920</b>	4,499
Inter company management fee	-	840
Deposit interest	280	48
<b>Total income</b>	<b>6,200</b>	5,387

#### 5. Investment management fee

	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capital £'000	2005 Total £'000
Investment management fee	632	1,898	2,530	541	1,625	2,166
Irrecoverable VAT thereon	111	332	443	95	284	379
Arrangement fees	-	(208)	(208)	-	(110)	(110)
	<b>743</b>	<b>2,022</b>	<b>2,765</b>	636	1,799	2,435

Dunedin Capital Partners Limited ("Dunedin") provides investment management and general administrative services to the Company for a quarterly fee payable in advance equal to 1/2% of gross assets. The notice period on the management agreement is two years.

The Company has investments in Dunedin Buyout Fund LP and Equity Harvest Fund LP. Each of these limited partnerships are managed by Dunedin. There are arrangements in place to ensure that there is no double charging of fees on these investments.

Simon Miller is Chairman of Dunedin, the investment manager, and is therefore deemed to have an interest in the management agreement. Simon Miller participates in the co-investment scheme operated by Dunedin Enterprise for Dunedin executives.

## 6. Other expenses

Profit on ordinary activities before taxation is shown after charging the following amounts:

	2006 £'000	2005 £'000
Directors' fees	122	100
Amounts paid to auditors and their associates:		
– audit services	15	15
– taxation services	20	15
– accounting and other advisory services	14	-
Administration expenses	355	345
Deal abort fees	32	23
	<b>558</b>	<b>498</b>

The Company does not directly employ any staff.

## 7. Interest Payable

	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capital £'000	2005 Total £'000
On bank loans and overdraft:						
Repayable in more than 5 years	54	161	215	62	185	247

## 8. Taxation on profit on ordinary activities

	2006 £'000	2005 £'000
UK corporation tax at 30% (2005: 30%)	609	1,007
Factors affecting the tax charge for the year:		
Return on ordinary activities before tax	4,845	4,191
UK Corporation Tax at 30%	1,454	1,257
Effects of:		
Non taxable income	(810)	(412)
Increase in surplus management expenses not utilised	-	48
Expenses disallowed for tax purposes	11	10
Income and expenditure attributable to a subsidiary	(46)	-
Prior year adjustment	-	104
	<b>609</b>	<b>1,007</b>
UK corporation tax at 30% (2005: 30%) charged to capital	(609)	(1,007)
	-	-

At 30 April 2006, the Company had net surplus management expenses of £5,043,483 (2005: £4,729,411) in respect of which a deferred tax asset has not been recognised. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

Due to the Company's status as an Investment Trust Company and the intention to continue to meet the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

## 9. Dividends

Amounts recognised as distributions to equity holders in the period:

	2006 £'000	2005 £'000
Final dividend for the year ended 30 April 2005 – 7.1p (year ended 30 April 2004 – 6.67p) paid 9 September 2005	2,156	2,058
Interim dividend for the year ended 30 April 2006 – 2.0p (year ended 30 April 2005 – 1.9p) paid 31 January 2006	607	568
	<b>2,763</b>	<b>2,626</b>

The proposed final dividend and special dividend are subject to approval by shareholders at the Annual General Meeting and have not been included as a liability in these statements.

The total dividend paid and proposed in respect of the financial year, which is the basis upon which the requirements of Section 842 Income and Corporation Taxes Act 1988 are considered, is noted below.

	2006 £'000	2005 £'000
Interim dividend for the year ended 30 April 2006 – 2.0p (year ended 30 April 2005 – 1.9p) paid 31 January 2006	607	568
Final dividend for the year ended 30 April 2006 – 7.45p (year ended 30 April 2005 – 7.1p) to be paid 15 September 2006	2,263	2,156
Special dividend for the year ended 30 April 2006 – 2.0p (year ended 30 April 2005 – nil) to be paid 15 September 2006	607	-
	<b>3,477</b>	<b>2,724</b>

## 10. Return per ordinary share

Basic revenue return per ordinary share is based on revenue return attributable to equity shareholders of £4,235,792 (2005: £3,183,521) and on 30,369,943 (2005: 30,597,536) being the weighted average number of ordinary shares in issue during the year.

Basic capital return per ordinary share is based on capital return attributable to equity shareholders for the financial year of £23,407,788 (2005: £19,484,368) and on 30,369,943 (2005: 30,597,536) being the weighted average number of ordinary shares in issue during the year.

## Notes to the Accounts

### 11. Investments

Investments held in the Dunedin Buyout Fund I and Equity Harvest Fund are shown on a look through basis.

	2006 £'000	2005 £'000
Unlisted UK investments*	57,903	88,110
Unlisted Overseas investments	-	830
'AAA' rated money market funds	78,281	20,410
Quoted UK investments	8,663	894
	<b>144,847</b>	110,244

\* Investments held via the Dunedin Buyout Fund I are valued at £2,267,282 and via the Equity Harvest Fund at £1,301,083.

Funds realised from listed and unlisted investments have been utilised to make investments in 'AAA' rated money market funds. The Board intends to realise these investments as and when new unlisted investment opportunities arise.

	Unlisted £'000	Listed £'000	'AAA' rated money market funds £'000	Total £'000
Book cost at 30 April 2005	75,253	122	20,410	95,785
Unrealised appreciation	13,687	772	-	14,459
Valuation at 30 April 2005	88,940	894	20,410	110,244
Purchases at cost	21,645	-	57,518	79,163
Liquidation of subsidiary	-	-	10,953	10,953
Transfer	(6,507)	6,507	-	-
Sales – proceeds	(69,185)	(830)	(10,600)	(80,615)
– realised gains on sales	37,255	708	-	37,963
Increase/(decrease) in unrealised appreciation	(14,245)	1,384	-	(12,861)
Valuation at 30 April 2006	57,903	8,663	78,281	144,847
Book cost at 30 April 2006	64,767	201	78,281	143,249
Closing unrealised appreciation/(depreciation)	(6,864)	8,462	-	1,598

Included within unlisted investments are investments valued at £40,365,463 (2005: £53,938,694) where the Company's interest is between 20% and 50% of the equity. These have not been accounted for as associates for the reason set out in note 1(b). These investments are listed on page 45.

	2006 £'000	2005 £'000
Realised gains based on cost	37,963	11,862
Realised loss on liquidation of subsidiary	(120)	-
Unrealised appreciation recognised in prior periods	(13,772)	(2,948)
	<b>24,071</b>	8,914
Increase in unrealised appreciation	911	11,546
	<b>24,982</b>	20,460

The portfolio at valuation comprises the following:

	2006 £'000	2005 £'000
Ordinary shares	23,717	42,966
Preference shares	6,040	4,227
Limited partnership funds	10,987	14,495
Fixed interest rate loan stock	22,822	26,529
Floating interest rate loan stock	3,000	1,617
'AAA' rated money market funds	78,281	20,410
	<b>144,847</b>	<b>110,244</b>

### Significant interests

(a) At 30 April 2006 the Company held between 20% and 50% of the allotted share capital of the following companies:

Name	£'000 Country of incorporation or registration	% of equity held directly	% of equity held directly and through funds	Latest available accounts	Share capital & reserves £'000	Profit/(loss) for year* £'000
<b>ABI (UK) Group Limited</b>	England	18.5	21.1	31.8.05	21,991	1,325
<b>AIM Group Holdings Limited</b>	England	38.0	38.0	30.4.05	(124)	(741)
<b>Blaze Signs International Limited</b>	England	45.0	45.0	31.3.05	(1,504)	(1,225)
<b>CGI Group Limited</b>	England	37.9	37.9	31.12.05	2,061	1,397
<b>Central Scotland Finance Limited</b>	Scotland	47.1	47.1	31.12.05	2,746	202
<b>Gardner Group Limited</b>	England	21.3	24.3	31.8.04	(8,146)	(9,052)
<b>New Horizons (Childcare) Holdings Limited</b>	England	27.8	31.6	30.6.05	198	(262)
<b>OSS Environmental Holdings Limited</b>	England	49.0	49.0	31.12.05	3,001	(15)
<b>Practice Plan Group Limited</b>	England	22.9	26.2	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>
<b>RSL Steeper Holdings Limited</b>	England	17.5	28.9	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>
<b>Travel &amp; General Holdings Limited</b>	England	25.9	25.9	31.10.05	9,909	1,871
<b>ZVC Group Limited</b>	England	18.3	20.8	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>

\*after taxation

(b) Other interests of 10% or more of any class of allotted share capital:

Name	Country of incorporation or registration	% of equity held directly	% of equity held directly and through funds
<b>Davenham Group plc</b>	England	9.9	10.1
<b>Dunedin Buyout Fund LP</b>	Scotland	13.0	13.0
<b>Portman Holdings Limited</b>	Scotland	16.8	16.8

Abbreviations shown above:

n/a<sup>1</sup> First year of investment

Equity percentages shown are fully diluted, based on the latest audited accounts available, to take account of options and warrants which have been issued, and conversion rights.

**12. Debtors**

	2006 £'000	2005 £'000
Prepayments and accrued income	196	179
Amounts owed from subsidiary undertaking	-	951
	<b>196</b>	<b>1,130</b>

**13. Creditors: Amounts falling due within one year**

	2006 £'000	2005 £'000
Accruals	110	98

**14. Creditors: Amounts falling due after more than one year**

	2006 £'000	2005 £'000
Revolving credit facility	-	-

A revolving credit facility of £39 million is available to the Company until 28 April 2010. The rate of interest on the revolving credit facility is 1.1% above LIBOR.

**15. Called-up share capital**

	Nominal No. '000	2006 £'000	Nominal No. '000	2005 £'000
Authorised:				
Ordinary shares of 25p each	40,000	10,000	40,000	10,000
Allotted, called-up and fully paid:				
Ordinary shares at 1 May 2005	30,370	7,592	30,722	7,680
Shares purchased and cancelled during year	-	-	(352)	(88)
Ordinary shares at 30 April 2006	<b>30,370</b>	<b>7,592</b>	30,370	7,592

The Company made no repurchases of ordinary shares in the year to 30 April 2006. At 16 June 2006 no ordinary shares have been repurchased since 30 April 2006. The Company does not hold any shares in treasury.

## 16. Reserves

Group	Share premium account £'000	Capital redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue account £'000
At 30 April 2005	47,600	334	51,709	14,459	4,729
Net revenue for the year	-	-	-	-	4,236
Transfer on disposal of investments	-	-	13,772	(13,772)	-
Net gain on realisation of investments	-	-	24,071	-	-
Revaluation movements	-	-	-	911	-
Management fees charged to capital	-	-	(2,230)	-	-
Arrangement fees	-	-	208	-	-
Loan interest charged to capital	-	-	(161)	-	-
Dividends paid	-	-	-	-	(2,763)
Tax effect of capital items	-	-	609	-	-
<b>At 30 April 2006</b>	<b>47,600</b>	<b>334</b>	<b>87,978</b>	<b>1,598</b>	<b>6,202</b>

## 17. Net asset value per share

The net asset value per share is calculated on shareholders' funds of £151,303,881 (2005: £126,423,965) and on 30,369,943 ordinary shares in issue at the year end (2005: 30,369,943).

## 18. Reconciliation of income to net cash inflow from operating activities

	2006 £'000	2005 £'000
Net revenue before finance costs and tax	4,899	4,253
(Increase)/decrease in accrued income	924	(98)
Decrease in other debtors	11	-
Increase in creditors	12	12
Management fees charged to capital	(2,230)	(1,909)
Arrangement fees	208	-
Net cash inflow from operating activities	3,824	2,258

**19. Capital Commitments**

There were outstanding capital commitments of £95,273,889 (2005: £13,238,273) in respect of investments at the end of the year.

**20. Contingent Liabilities**

There were no contingent liabilities at the year end (2005 – £Nil).

**21. Manager's Incentive Scheme**

(a) With effect from 1 May 1999, Dunedin's incentive scheme ("the Scheme"), described on page 49 was introduced to Dunedin Enterprise.

(b) During the year qualifying directors and investment executives of Dunedin have invested £70,627 (2005: £108,609) in companies in which Dunedin Enterprise also has an interest. In the same period Simon Miller, a Director of both Dunedin and the Company, invested £4,171 (2005: £6,720) in these unquoted companies.

**22. Financial Instruments**

The Company's objective is to provide shareholders with long term capital growth through investment in unquoted companies both directly and through specialist funds. Direct investments are made with an anticipated holding period of between three and five years. Investment agreements will, however, usually provide that any loans advanced to investee companies are for a longer period than this. The agreements will usually provide for repayments to be made by instalments with provision for full repayment on sale or flotation. Investments in funds have anticipated lives of approximately ten years.

**Financial risk management**

The Company's financial risk management objectives and policies are set out below:

**Credit and investment risk**

The Company has no substantial assets other than financial assets. Substantially all the assets are subject to credit or investment risk. Exposure to any one entity is carefully monitored. Liquid investments (cash and cash equivalents) are divided between a number of different financial institutions, each of whose credit rating is assessed. Investments in unquoted companies are by their nature subject to potential credit losses.

**Liquidity**

The Company has significant investments in unquoted companies which are inherently illiquid. The Company manages its liquid investments to ensure sufficient cash is available to meet contractual commitments and also seeks to have cash generally available to meet other short term financial needs. It has the power to take out borrowings. The Company currently has a borrowing facility of £39 million.

**Currency**

The Company's investments are principally in the UK and denominated in sterling. There are also investments denominated in Euro's. The Company monitors its exposure to foreign currencies. The Company does not currently undertake any hedging activities in respect of currency risk.

**Price**

The risk that the value of a financial instrument will change as a result of changes to market prices is one that is fundamental to the Company's objective, which is to provide long term capital growth through investment in unquoted companies. The portfolio is continually monitored to ensure an appropriate balance of risk and reward in order to achieve the Company's objective. No hedging of this risk is undertaken.

**Interest rate**

The Company has significant cash and near cash balances which generate interest inflows. The Company monitors its exposure to interest rates. The Company does not undertake any hedging activities in respect of interest rates.

**Currency risk**

The Company is exposed to currency risk as a result of investing in companies and funds in foreign currencies. The sterling value of these investments can be influenced by movements in foreign exchange rates. The Company does not normally hedge against foreign currency movements affecting the value of its investments, but takes account of this risk when making investment decisions.

**Financial assets of the Company**

Currency	2006				2005			
	Fixed rate £'000	Floating rate £'000	Nil rate £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Nil rate £'000	Total £'000
Sterling	28,862	87,652	33,173	149,687	30,756	36,344	56,006	123,106
Euro	-	-	1,531	1,531	-	830	1,455	2,285
<b>Total</b>	<b>28,862</b>	<b>87,652</b>	<b>34,704</b>	<b>151,218</b>	<b>30,756</b>	<b>37,174</b>	<b>57,461</b>	<b>125,391</b>

The fixed rate assets comprise fixed rate lendings to investee companies. Fixed rate lendings have a weighted average interest rate of 7% per annum (2005: 7%) and a weighted average life to maturity of 6.6 years (2005: 6.0 years). The floating rate assets consist of cash, "AAA" rated cash OEIC's and lendings to investee companies.

The nil interest rate bearing assets represent the equity content of the investment portfolio.

## Summary of Manager's Incentive Scheme ("the Scheme")

### **Introduction**

The Scheme is designed to allow executives of Dunedin responsible for the investment of the Company's funds to co-invest alongside such funds by investing in ordinary equity shares (and, occasionally, other financial instruments).

### **Participation**

Selected employees of Dunedin participate in the Scheme (following consultation with the board of Dunedin Enterprise) subject to an overall investment limit, presently 100% of the participant's basic salary. Employees who accept the invitation to participate shall be entitled and bound to do so for the whole of the relevant year.

### **Investment**

Each participant shall invest in every investment offered under the Scheme during the relevant year. Participants invest in proportion to amounts determined by Dunedin's Remuneration Committee. Participants shall acquire investments at the price at which Dunedin Enterprise acquires the same investment.

### **Payment**

Each participant must advance the money required for the acquisition of investments on completion and in default shall cease to participate in any further investment opportunities for the remainder of that year and for up to six months of the following year.

### **Disposal of Investments**

Participants shall dispose of investments at the same time and at the same price as Dunedin Enterprise and to the extent required pursuant to a flotation.

### **Restriction**

Prior to an exit, investments acquired pursuant to the Scheme may not be sold, charged, assigned, transferred or otherwise alienated by a participant, except to connected persons. A participant shall cease to participate as regards new investments on reaching his overall investment limit, on the breach of any of the rules and on the date on which notice is given by either party of termination of the participant's employment.

### **Leavers**

A participant who leaves Dunedin retains all investments held by him pursuant to the Scheme up to the date when disposal is required alongside Dunedin Enterprise.

### **Amendment**

Each year Dunedin may amend the Scheme with the consent of the Company.

## Notice of Annual General Meeting

Notice is hereby given that the thirty second Annual General Meeting of the shareholders of Dunedin Enterprise Investment Trust PLC will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh, EH2 2EP on Tuesday 12 September 2006 at 12 noon for the following purposes:-

### Ordinary Business

To consider and, if thought fit, to pass the following resolutions of which resolutions 1 to 6 will be proposed as ordinary resolutions.

1. To receive and adopt the report of the Directors and the audited accounts for the year ended 30 April 2006.
2. To declare a final dividend for the year ended 30 April 2006.
3. To declare a special dividend for the year ended 30 April 2006.
4. To approve the Directors' Remuneration Report.
5. To re-elect as a Director Edward Dawney who retires in accordance with the articles of association.
6. To re-elect as a Director Simon Miller who retires in accordance with the articles of association.
7. To re-appoint KPMG Audit Plc as auditors and to authorise the Directors to determine the auditors' remuneration.

### Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 7 will be proposed as an ordinary resolution and resolutions 8 to 10 will be proposed as special resolutions:

8. That, in substitution of any existing authority of the Directors, the Directors of the Company be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (as amended and in force from time to time) ("the Act") to allot relevant securities (as defined in Section 80(2) of the Act) up to a maximum nominal amount of £2,530,828 (being one-third of the issued share capital of the Company at the date of the notice of this Annual General Meeting) provided that the authority hereby given shall expire five years after the passing of this resolution unless previously revoked, varied or extended by the Company in general meeting save that the Company may at any time prior to the expiry of such authority make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.
9. That, in substitution for any existing power under Section 95 of the Companies Act 1985 (the "Act") where they are generally authorised for the purposes of Section 80 of the Act, the Directors be and they are hereby empowered, pursuant to Section 95(1) of the Act, to allot equity securities (as defined in Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotment, provided that this power is limited:

(i) to the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise; and

(ii) to the allotment (other than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £379,624;

and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, the date which is 15 months after the passing of this resolution) unless the authority is issued, revoked or renewed prior to such time save that the company may, before this authority expires or is replaced, make an offer or agreement which would or might require equity securities to be allotted after such expiry or replacement and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired or, as the case may be, been replaced.

10. That 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 of the Act) of ordinary shares of 25 pence each provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased is 4,555,491;

(ii) the minimum price which may be paid for an ordinary share shall be 25 pence;

(iii) the maximum price (exclusive of expenses) which shall be paid for an ordinary share shall be an amount equal to 105 per cent of the average middle market quotations for a share taken from and calculated by reference to the London Stock Exchange Daily Official list for the five business days immediately preceding the day on which the shares are purchased;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after passing of this resolution (or, if earlier, the date which is 15 months after the passing of this resolution) unless the authority is issued, revoked or renewed prior to such time; and

(v) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

11. That the Articles of Association of the Company be amended by the deletion of the existing Article 162 and its replacement by the following new Article 162:

"162. Indemnification of Directors and Officers

162.1 Subject to the provisions of the Act (and to any relevant legal or regulatory requirement to which the Company may be subject), but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, provided that this Article shall only apply to the extent permitted by the Act.

162.2 The Company may indemnify out of the assets of the Company any Director or officer of the Company from and against all losses or liabilities which he may sustain or incur in or about the execution or discharge of the duties of his office or otherwise in relation thereto, provided that this Article shall only have effect to the extent permitted under Sections 309A or 309B of the Act (or under any relevant legal or regulatory requirement to which the Company may be subject).

162.3 Subject to Sections 337A(4) to (6) of the Act (and to any relevant legal or regulatory requirement to which the Company may be subject), the Company may provide any Director or officer of the Company with funds to meet expenditure incurred or to be incurred by him in defending any civil or criminal proceedings brought or threatened against him in connection with any alleged negligence, default, breach of duty or breach of trust by him or in connection with any application under section 144(3) or (4) or under Section 727 of the Act and subject as aforesaid, the Company shall be permitted to take or omit to take any action or enter into any arrangement which would otherwise be prohibited under section 330 of the Act to enable a director to avoid incurring such expenditure.

162.4 Without prejudice to the other provisions of this Article 162 (and subject to any relevant legal or regulatory requirement to which the Company may be subject), the Directors shall have power to purchase and maintain insurance for or for the benefit of any persons who are or were at any time Directors, officers, employees or auditors of the Company. Subject as aforesaid, this shall include (without prejudice to the generality of the foregoing) insurance against any liability incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to their duties, powers or offices in relation to the Company.”

By Order of the Board  
Dunedin Capital Partners Limited  
Secretary  
16 June 2006

Registered Office:  
10 George Street, Edinburgh EH2 2DW

## Notes

**1. THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action to be taken, you should seek personal financial advice from your independent financial advisor authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriate independent financial advisor.

2. If you have sold or otherwise transferred all your shares in Dunedin Enterprise Investment Trust PLC, please forward this document, together with the form of proxy enclosed, at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of shares, you should retain these documents.

3. A member entitled to attend and vote at the Annual General Meeting (“AGM”) may appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the company.

4. Proxy forms must be lodged not less than 48 hours before the meeting with the company’s registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh, EH4 1WQ. Completion of the form of proxy does not preclude a member from attending the meeting and voting in person.

5. There are special arrangements for holders of shares through the Aberdeen Investment Trust Share Plan, ISA and PEP. These are explained in the ‘Letter of Directions’ which such holders will have received with this report.

6. Pursuant to regulations 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes they may cast), members must be entered on the register of members at 12 noon on 8 September 2006. If the meeting is adjourned then, to be so entitled, members must be entered on the register of members 48 hours before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.

## Financial Calendar

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

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### June

Preliminary figures and recommended final dividend for the year announced.

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### August

Annual Report and accounts published.

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### September

Annual General Meeting and final dividend paid.

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### December

Interim dividend announced and interim report for half year to 31 October published.

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### January

Interim dividend paid.

