Investing in private equity

Dunedin

# Dunedin Enterprise Investment Trust PLC
Report and Accounts for the year ended 31 December 2010

## Contents



References in this report and accounts to 'Dunedin Enterprise' or to 'the Company' or to 'the Parent Company' or to 'the Group' or the 'Trust' mean Dunedin Enterprise Investment Trust PLC. References to 'Dunedin' or to 'the Manager' mean Dunedin Capital Partners Limited.

# Objective

Dunedin Enterprise Investment Trust PLC specialises in the provision of private equity finance. 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 investment objective is to achieve substantial long term capital growth in its assets through capital gains from its investments.

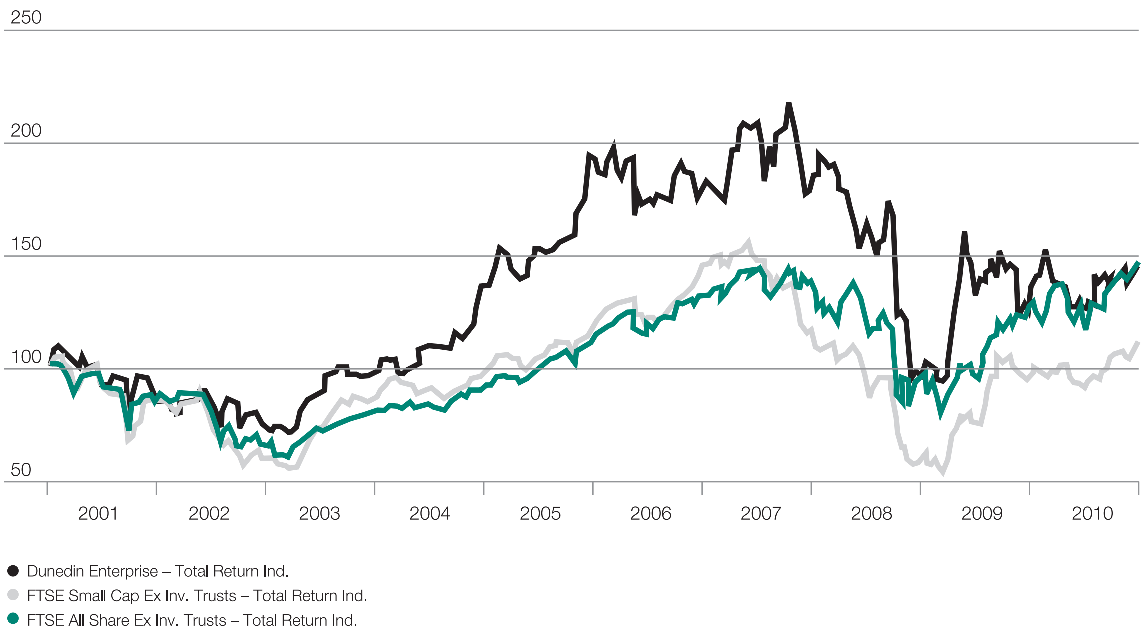
# Financial Highlights

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Total return per ordinary share | 92.2p | –2.3p |
| Net asset value per ordinary share | 497.3p | 407.1p |
| Share price | 300.0p | 266.5p |
| Discount | 39.7% | 34.5% |
| Dividend per ordinary share | 3.8p | 2.5p |
| Total expense ratio | 2.4% | 2.7% |

## Comparative Performance

| | One year to December 2010 % | Three years to December 2010 % | April 2006 to December 2010 % | April 2001 to December 2010 % |
|---|---|---|---|---|
| Net asset value per ordinary share | 22.2 | –6.1 | –0.2 | 37.3 |
| Share price | 12.6 | –27.8 | –34.5 | –6.3 |
| FTSE Small Cap Index ("the Benchmark") | 13.0 | –14.4 | –24.7 | –13.0 |
| FTSE All Share Index | 10.7 | –7.0 | –0.7 | 6.2 |

## Ten Year Record




Source: Datastream

# Chairman's Statement

**Edward Dawnay,** Chairman

I can report that the Trust has made significant progress this year, with a substantial increase in the net asset value and the completion of three new investments in the UK, the first since 2008.

During the year to 31 December 2010, net assets increased by £27.2m from £122.9m to £150.1m, an increase of 22.2%. Of this increase, £8.2m (6.7%) is attributable to the recognition of accrued interest in the valuation of portfolio companies. The share price increased from 266.5p to 300.0p over the same period, an increase of 12.6%. Despite this strong performance, it is disappointing to note that the discount to net asset value remains stubbornly high at 39.7%. The share price at 21 February 2011 was 299.5p a discount of 39.8% to net asset value. It is hoped these strong results will see the discount closing.

I said last year that the focus was firmly on protecting the value of the portfolio, and this has remained the case. The most significant driver of net asset growth has been an improvement in the profitability and prospects of the portfolio companies. For the first time, the value of accrued interest on loans to portfolio companies where there is a strong expectation that the interest will be paid or received when the company is sold has been included in the portfolio valuations. This brings the Trust in to line with market practice and is in accordance with International Private Equity Valuation guidelines.

New investment activity, particularly through Dunedin managed funds in the UK, was the highest for several years. A total of £38.8m was invested, of which £31.3m was invested by Dunedin or in Dunedin managed funds and £7.4m was drawn down by European third party managed funds for investment. The bulk of the new investment was through the Dunedin Buyout Fund II which acquired three new companies, details of which are contained in the Manager's Review.

**Portfolio**

The portfolio at 31 December 2010 consisted of investments made by the Trust, directly or through Dunedin managed funds 55.7%, listed private equity 16.6%, third party managed funds 8.0%, legacy funds 1.2% and cash or near cash 18.5%. Within the top ten investments by value, nine are managed by Dunedin.

At the year end, the Trust had outstanding commitments of £82.6m to limited partnership funds, split between Dunedin managed funds 46% and European third party managed funds 54%. We remain cautious about the rate of new commitment and no new European funds were added in 2010.

Cash reserves at the end of the year totalled £29.1m. The Trust also had listed private equity holdings of £26.0m. This was divided between £11.6m in four European listed securities and £14.4m in the SWIP Private Equity Fund of Funds II PLC

We have addressed the funding of new investments through our cash reserves and the sale of European listed securities. By 31 December 2010 we had realised £3.2m from these sales. Since the start of the new financial year we have completed the sale of all of our European listed securities, raising a total of £11.2m, at a value £0.4m less than the 31 December 2010 valuation.

I said last year that banking markets were unattractive and we would not be renewing our facility in April 2010. We did not renew the facility and we are not expecting to do so in the near future.

Both the Board and the Manager are comfortable with the balance between cash resources and uncalled commitments given the expected rate of new investment.

**Market conditions and outlook**

Against the background of economic difficulty and uncertainty, the Manager continues to work closely with their portfolio companies. The efforts of private equity managers and their direct involvement as active shareholders have been shown to reduce the impact of unfavourable trading conditions on the profitability of their companies, and this is our experience with our own portfolio. Eight out of thirteen Dunedin managed portfolio companies are forecasting to grow profits in the current year.

Our portfolio is conservatively geared and there is a constructive relationship with our banking partners.

In the new business market prices remain high, driven by the large amount of available equity finance. Debt markets remain difficult to access, however, and a higher equity element is required in the structuring of new investments. The main driver of returns will remain improvement in the profitability of portfolio companies.

Realisations were at a lower level in 2010, but with the recovery and growth in portfolio company profits more activity can be expected in the current year.

## Chairman's Statement continued

### Dividends
The Company's policy is to pay an annual dividend, calculated at a level to ensure that it meets the requirements of UK tax legislation to maintain its investment trust status.

The proposed single final dividend for 2010 is 3.8p, which will be payable on 20 May 2011 following the AGM.

### Board
Simon Miller will retire at the AGM. He has been a director of Dunedin Enterprise Investment Trust for 11 years. As Chairman of Dunedin Capital Partners he will continue his close involvement with the Trust. I also intend to retire from the Board at the AGM in 2012.

### Other Matters
We continue to monitor progress being made with the EU directive on Alternative Investment Fund Management. The Board and Managers remain active in ensuring an appropriate outcome is achieved for listed private equity investment trusts.

**Edward Dawnay,**
Chairman
22 February 2011

# Board of Directors

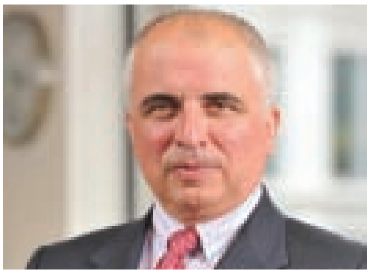
* Members of the Audit Committee.
# Members of the Nomination Committee.

**Edward W Dawnay, FCA** (61)*#
was appointed to the Board in 1995 and became Chairman in 1999. A chartered accountant, he worked for Lazards for 19 years until 1993. He is a Director of various private companies.

**David Gamble** (67)*#
was appointed to the Board in 2001 and became Senior Independent Director in 2008. 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, JPMorgan Emerging Markets Investment Trust plc and Polar Capital Technology Trust PLC and Chairman of Montanaro UK Smaller Companies Investment Trust PLC. He is also a Director of IBM UK Pensions Trust Limited, Chairman of Hermes Property Unit Trust and a member of the BBC Pension Trust Investment Committee. He also holds other advisory and non-executive positions.

**Liz Airey** (52)*#
was appointed to the Board in 2005 and became chairman of the Audit Committee in 2009. She has over 20 years experience in banking, corporate advisory and finance. She was Finance Director of Monument Oil and Gas plc from 1990 to 1999. She is non-executive Chairman of JPMorgan European Smaller Companies Trust plc, non-executive Chairman of Unilever UK Pension Fund and non-executive Director of Tate & Lyle plc.

**Brian Finlayson** (63)*#
was appointed to the Board in 2007. He has over 30 years experience in private equity and corporate finance. He was appointed Managing Director of Dunedin Capital Partners in 1990, becoming Deputy Chairman in 1999 and retiring in March 2002. He is currently a non-executive Director of Latchways plc and Quayle Munro Holdings plc.



**Federico Marescotti** (54)*#
was appointed to the Board in 2009. He is executive Chairman of Friulia SGR Spa and Vela Capital, sits on the Board of AIFI, the Italian Private Equity and Venture Capital Association and chairs the Infrastructure committee. He is also a non-executive Director of Ecofin Water & Power Opportunities and JP Morgan European Smaller Companies Trust plc, and is an international advisor to ADCO International GMBH.

**Simon Miller** (58)
was appointed to the Board in 1999 and has been Chairman of Dunedin Capital Partners Limited since 1994. He is Chairman of JPMorgan Elect plc and Artemis Alpha Trust PLC, and a non-executive Director of Brewin Dolphin Holdings PLC. He is Chairman of a portfolio company etc.venues Group Limited. He will step down from the Board of Dunedin Enterprise at the AGM.

# The Manager

## The Manager

The Trust is managed by Dunedin Capital Partners Limited ("Dunedin"), an independent private equity fund manager. The Manager's senior team has been together since 1996 when they completed their own buyout. Dunedin has more than £400m under management. This is managed on behalf of the investment trust and three limited partnership funds.

Dunedin provides equity finance for management buyouts and management buyins with a transaction size of £20m – £75m. It is an independent private equity house, majority owned by the directors and staff, operating throughout the UK from offices in Edinburgh and London. In 2006, it raised a £250m buyout fund which was significantly oversubscribed. Dunedin was awarded "Excellence in Portfolio Management" at the Unquote British Private Equity Awards in 2010.

Dunedin targets buyout investments where it can partner with management teams to build better businesses. Dunedin provides the knowledge, skills and finance to help the companies it backs to develop and attain their full potential. It targets businesses with the following characteristics:

- Proven management team with the desire to create and deliver value
- Strong market position, niche or brand
- Clear organic growth potential
- Potential for buy and build or roll-out
- Barriers to entry
- Legislation-driven products or services
- Enterprise value of £20m to £75m

Dunedin Capital Partners Limited is authorised and regulated by the Financial Services Authority.

## Objective and Investment Policy

Dunedin Enterprise is managed as an HM Revenue and Customs approved investment trust. Dunedin Enterprise's objective is to target a rate of return on equity in excess of 8% per annum over the long-term.

The Group aims to achieve its investment objective by investing in a portfolio of unquoted companies either directly, via private equity funds or via quoted private equity companies. Investments are structured to deliver capital growth for the Group.

The mix of investments by the Group among each of these principal investment categories will vary from time to time. It is expected that, in the medium to long term, the allocation of direct investments and investment into quoted private equity companies as a proportion of the total portfolio will decrease as indirect investment through private equity funds increases. The Board, in conjunction with the Manager, has discretion as to asset allocation and can at any time determine that up to 100% of the Group's assets may be invested in any particular investment category.

The Group retains the ability to make substantial commitments to funds managed by Dunedin.

Dunedin Enterprise has sought to diversify its portfolio of investments principally by making commitments to private equity funds managed by leading private equity fund managers across Europe. Commitments will be predominantly to buyout funds specialising in small and medium sized buyouts in Europe.

The Group also retains the ability to make co-investments alongside the private equity funds in Europe to which it makes commitments and to invest in quoted private equity.

The Manager actively monitors the Group's portfolio of investments and attempts to mitigate risk primarily through diversification. By investing in a diversified portfolio of private equity funds, the Group will be exposed to numerous underlying investments in individual companies. As some of these investments may be denominated in currencies other than Sterling, the Board will seek to ensure that the Manager manages any currency risk appropriately and the Board will be responsible for setting the Group's hedging policy. Not more than 15% of Net Asset Value, at the date of investment, will be invested in any single investment. For the avoidance of doubt, if the Group invests into a limited partnership fund, this limitation shall be applied individually to each of the underlying companies invested into by that fund.

In common with most investment companies, the Group may borrow to finance further investment. Although Dunedin Enterprise is permitted by its Articles of Association to borrow an amount equal to the amount paid up on the issued share capital and the total amounts standing to the credit of the capital and revenue reserves of the Group. Board policy is that financial gearing will not exceed 40% of gross asset value.

The Board of Dunedin Enterprise will recommend the payment of dividends to ensure that the Group complies with the requirements of Section 1158 of the Corporation Tax Act 2010.

# Manager's Review

In the year to 31 December 2010 the Company's net asset value increased from £122.9m to £150.1m. This equates to an increase of 22.2% in the net asset value per share from 407.1p to 497.3p. This increase in net assets is explained by:

| | £m |
|---|---|
| Net asset value at 1 January 2010 | 122.9 |
| Unrealised value increases | 29.0 |
| Unrealised value decreases | (3.6) |
| Realised profit over opening valuation | 1.8 |
| Other revenue and capital movements | 0.6 |
| Dividends paid to shareholders | (0.6) |
| Net asset value at 31 December 2010 | 150.1 |

**Portfolio Composition**
Dunedin Enterprise makes investments in unquoted companies through:

- Dunedin managed funds (including direct investments),
- third party managed funds,
- European listed private equity (including SWIP Private Equity Fund of Funds), and
- legacy technology funds.

The investment portfolio can be analysed as shown in the table below.

**New Investment Activity**
A total of £38.8m was invested in the year to 31 December 2010. Of this, £31.3m was invested by Dunedin or in Dunedin managed funds, £7.4m was drawn down by European third party funds, with the balance of £0.1m drawn by legacy technology funds.

As reported at the half year, £9.5m was invested in June 2010 in the secondary buyout of Weldex (International) Offshore Holdings Limited, the largest crawler crane hire company in the UK. Weldex has a strong market position in the offshore wind farm and power generation sectors.

In December 2010, the Trust invested £9.8m in CitySprint (UK) Group Limited to provide acquisition funding to support the company's ongoing buy and build strategy. CitySprint is the UK's market leader in the same day delivery sector with a national network of 31 service centres. The business splits its activities into key services of same day courier, same day logistics and International and UK overnight courier to a number of different sectors including healthcare, retail fulfilment, and parts and stock forwarding.

Also in December 2010, the Trust invested £5.7m in support of the management buyout of U-Pol Group Limited, a UK based international provider of automotive refinish consumable products such as fillers, primers and coatings. The company's products are used in 110 countries. The funding for this investment will be drawn down by Dunedin Buyout Fund II LP in the new financial year.

During the year, further investments were made in portfolio companies Capula Group Limited (£2.7m), Enrich Limited (£1.5m) and WFEL Limited (£0.5m). Of the £2.0m invested in Enrich and WFEL, £1.5m was drawn down by Dunedin Buyout Fund II in 2010 and £0.5m will be drawn in 2011.

In the year to 31 December 2010 Dunedin Enterprise realised a total of £7.7m from investments. The largest of these was £1.9m from the sale of LGC Group Holdings Limited in the first half of the year which resulted in an uplift of £0.9m over the 31 December 2009 valuation.

Three of the four European listed securities continued their share price recoveries during the year. CapMan (+32.8%), DBAg (+24.5%), and GIMV (+11.9%) all performed well. Dinamia (-13.1%) was the exception.

The Company started the realisation of these European listed securities in December 2010 and by the end of the year had realised a total of £3.2m. Sales of these quoted stocks have continued in the new financial year, and the entire holding of European listed securities has now been sold, raising a further £11.2m, at a value £0.4m less than the 31 December 2010 valuation.

**Cash and commitments**
At 31 December 2010 the Trust had cash and near cash balances of £29.1m. The realisation of the remaining European listed securities in 2011 has generated £11.2m. The effect of this, after deducting the £6.2m draw down from Dunedin Buyout Fund as referred to above, would result in a restated cash balance of £34.1m.

Taking account of the drawdowns noted above, from the original commitment of £75m to Dunedin Buyout Fund II by the Trust undrawn commitments are £30.8m (41%).

No new commitments were made to European funds during the year. The Company has commitments to five funds totalling £58.4m. Drawdowns of committed funds totalled £7.4m in the year to 31 December 2010, taking the total funds drawn to date to £13.8m, leaving undrawn commitments of £44.6m. All of the European funds have now started their investment periods and early indications from the underlying portfolio companies are generally positive.

| | Valuation at 1 January 2010 £'m | Additions in year £'m | Disposals in year £'m | Realised movement £'m | Unrealised movement £'m | Valuation at 31 December 2010 £'m |
|---|---|---|---|---|---|---|
| Dunedin managed | 34.7 | 31.3 | (1.4) | 0.9 | 21.7 | 87.2 |
| Third party managed | 6.2 | 7.4 | (2.5) | 0.9 | 0.5 | 12.5 |
| European listed private equity | 13.4 | – | (3.2) | – | 1.4 | 11.6 |
| SWIP Private Equity Fund of Funds | 12.6 | – | – | – | 1.8 | 14.4 |
| Legacy technology funds | 2.2 | 0.1 | (0.6) | – | – | 1.7 |
| | **69.1** | **38.8** | **(7.7)** | **1.8** | **25.4** | **127.4** |

## Manager's Review continued

**Unrealised movements in valuations**
Investment valuations now, for the first time, include the value of accrued interest on loans to portfolio companies where there is a strong expectation that the interest will be paid or received when the company is sold. This brings the Trust in to line with market practice and is in accordance with International Private Equity Valuation guidelines. The total value of interest accrued, and thereby increasing the investment valuations at 31 December 2010 is £8.2m.

In the year to 31 December 2010 the largest single uplift in unrealised value came from OSS Environmental Holdings, where strong trading contributed to an increase in value of £6.4m. The profit growth in this company was highlighted in last year's Manager's Review.

Improved trading also drove value increases at CGI (£3.7m), RSL Steeper (£3.8m), etc.venues (£2.0m), and Capula (£1.8m). The largest single increase attributable to the recognition of accrued interest is £2.9m at Practice Plan.

On the downside, additional funding of £1.5m made available to Enrich has been fully provided against as the company continues to find trading difficult. The Manager remains supportive of this company.

The share value of the SWIP Private Equity Fund of Funds rose from €0.64 to €0.76 over the year, increasing the value of the investment from £12.6m to £14.4m. The commitment period of the fund ended on 31 December 2010 and it has an interest in 72 underlying funds. The geographical allocation is UK (28%), Europe (40%), US (25%) and rest of the world (7%).

**Valuations and Gearing**
The average earnings multiple applied in the valuation of the Dunedin managed portfolio was 6.4x EBITDA (2009: 4.7x), or 7.8x EBITA (2009: 5.8x). These multiples continue to be applied to the lower of historic or forecast profits.

The European third party fund programme is not yet sufficiently mature to provide comparative figures.

Within the Dunedin managed portfolio, the weighted average gearing of the companies was 1.7x EBITDA (2009: 2.3x) or 2.1x EBITA (2009: 2.8x). Analysing the portfolio gearing in more detail, the percentage of total enterprise value represented by different gearing levels was as follows :

| | |
|---|---|
| Less than 1 x EBITDA | 38% |
| Between 1 and 2 x EBITDA | 31% |
| Between 2 and 3 x EBITDA | 24% |
| More than 3 x EBITDA | 7% |

Of the total acquisition debt in the Dunedin managed portfolio companies the scheduled repayments are spread as follows:

| | |
|---|---|
| Less than one year | 20% |
| Between one and three years | 27% |
| More than three years | 53% |

**Geographic Distribution**
At 31 December 2010, 72% of the investment portfolio of £127.4m was based in the UK, with 24% in Continental Europe and 4% elsewhere. The higher exposure to the UK results from the completion of three new investments by Dunedin funds during the year. Increased exposure to Europe through the drawdown of third party funds has been offset by the sale of the European quoted stocks referred to above.

| | 31 December 2010 % | 31 December 2009 % |
|---|---|---|
| UK | 72 | 58 |
| Europe | 24 | 35 |
| USA | 4 | 6 |
| Rest of World | – | 1 |

**Sector Analysis**
The investment portfolio of the Company is broadly diversified. At 31 December 2010 the largest sector exposure of 48% remains to the Support Services sector, a diverse sector in itself.

| | 31 December 2010 % | 31 December 2009 % |
|---|---|---|
| Construction & building materials | 5 | 3 |
| Consumer products & services | 5 | 7 |
| Financial services | 5 | 7 |
| Healthcare | 5 | 4 |
| Leisure & hotels | – | 2 |
| Industrials | 22 | 28 |
| Pharmaceutical, medical, biotech | 3 | 3 |
| Real estate | 2 | 2 |
| Support Services | 48 | 37 |
| Technology | 5 | 7 |

### Deal Type

The portfolio of investments continues to be predominantly weighted towards MBO/MBI's. Exposure to technology, life sciences and real estate arises from third party managed funds.

| | 31 December 2010 % | 31 December 2009 % |
|---|---|---|
| MBO/MBI | 90 | 88 |
| Technology | 5 | 7 |
| Life Sciences | 3 | 3 |
| Real estate | 2 | 2 |

### Valuation Method

| | 31 December 2010 % | 31 December 2009 % |
|---|---|---|
| Cost | 15 | 3 |
| Earnings – provision | 13 | 33 |
| Earnings – uplift | 52 | 26 |
| Bid price | 20 | 38 |

### Year of Investment

In the vintage year table below, value is allocated to the year in which either Dunedin Enterprise or the third party manager first invested in each portfolio company.

| | 31 December 2010 % | 31 December 2009 % |
|---|---|---|
| Less than one year | 26 | 9 |
| One to three years | 15 | 22 |
| Three to five years | 22 | 41 |
| Greater than five years | 37 | 28 |

### Investment Income

As previously advised, the increased use of rolled-up yield in investment structuring and continued low interest rates mean that current and future income receipts will be lower than in the past.

The dividend policy is to pay such a dividend that allows the Company to maintain compliance with Section 1158 of the Corporation Tax Act 2010.

A single final dividend of 3.8p will be paid on shareholders' approval of the audited annual accounts.

**Dunedin Capital Partners Limited**
22 February 2011

# Top Twenty Investments (held directly and via funds)

| | |
|---|---|
| Percentage of equity held | 4.0% |
| Cost of investment | £15.0m |
| Directors' valuation | £14.4m |
| Percentage of Dunedin Enterprise's net assets | 9.6% |

## SWIP Private Equity Fund of Funds II Plc

In April 2007, Dunedin Enterprise invested £15m in the SWIP Private Equity Fund of Funds II Plc.

The fund of funds is a portfolio of 72 private equity interests in large pan-European buyout funds, mid-market European buyout funds, European and US venture and bioscience funds, a mezzanine and a secondaries fund. No new funds will be added to the portfolio.

SWIP Private Equity Fund of Funds II Plc is listed on the Dublin stock exchange.

The portfolio is spread across a wide range of vintages, from 2001 to 2010. 53% of the underlying funds by value date from 2006 to the present. 28% of the underlying portfolio companies are UK based and 25% are US based. The ten largest underlying companies make up 13% of the total net assets of the fund.

| | |
|---|---|
| Percentage of equity held | 26.1% |
| Cost of investment | £10.4m |
| Directors' valuation | £13.3m |
| Percentage of Dunedin Enterprise's net assets | 8.9% |

## Practice Plan Holdings Limited

In September 2005, Dunedin Enterprise invested £4.3m in the management buyout of Shropshire-based Practice Plan Group.

A £26m recapitalisation of Practice Plan took place in May 2007, returning £6.6m of proceeds to Dunedin Enterprise. Dunedin Enterprise has re-invested £10.4m in ordinary shares, loan stock and preference shares.

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.

Practice Plan works with dental practices 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.

In the year ended 30 June 2010, the audited operating profit of Practice Plan was £3.3m (2009: £3.4m) on turnover of £6.3m (2009: £6.5m). Loan interest of £0.5 was received by Dunedin Enterprise during the year to 31 December 2010 (2009: £nil). The net assets of Practice Plan at 30 June 2010 amounted to – £6.4m (2009: –£6.9m).

| | |
|---|---|
| Percentage of equity held | 40.2% |
| Cost of investment | £6.0m |
| Directors' valuation | £10.9m |
| Percentage of Dunedin Enterprise's net assets | 7.3% |

## OSS Environmental Holdings Limited

In May 2000, Dunedin Enterprise invested £5.2m in OSS to support its acquisition, in a public to private transaction, of Greenway Holdings plc. OSS is the UK's largest waste oil collection and recycling business.

OSS processes a number of special waste streams arising from garages and other industrial premises. Legislation is increasingly recognising that oil should be treated as a scarce resource, thereby placing greater emphasis on its collection as a waste and its subsequent treatment and disposal. OSS, as UK market leader, is at the forefront of the changes taking place in this niche of the waste products market and during 2007 the company won a legal test case establishing the principle of recycling waste derived fuels.

In the year ended 31 December 2009, the audited operating loss of OSS was £0.3m (2008: profit £4.7m) on turnover of £20.2m (2008: £25.0m). Loan interest and dividends of £0.4m were received by Dunedin Enterprise during the year to 31 December 2010 (2009: £0.4m). The net assets of OSS as at 31 December 2009 were £2.7m (2008: £3.4m).

## CitySprint (UK) Group Limited

| | |
|---|---|
| Percentage of equity held | 11.9% |
| Cost of investment | £9.8m |
| Directors' valuation | £9.9m |
| Percentage of Dunedin Enterprise's net assets | 6.6% |

In December 2010, Dunedin Enterprise invested £9.8m in CitySprint (UK) Group Limited to support the company's ongoing buy and build strategy.

CitySprint is the UK's market leader in the same day delivery sector with a national network of 31 service centres. Turnover has grown through the recession from £46m in 2007 to a forecast £61m for the year ended December 2010.

The business splits its activities into key services of same day courier, same day logistics and International and UK overnight courier to a number of different sectors, including healthcare, online retail fulfillment and parts fulfillment such as outsourced supply chain services for engineering and servicing companies, including delivery of parts and stock forwarding.

In the year to 31 December 2009, the audited operating profit of CitySprint was £4.7m on turnover of £52.0m.

## Weldex (International) Offshore Holdings Limited

| | |
|---|---|
| Percentage of equity held | 15.1% |
| Cost of investment | £9.5m |
| Directors' valuation | £9.8m |
| Percentage of Dunedin Enterprise's net assets | 6.5% |

In June 2010, Dunedin Enterprise invested £9.5m in the secondary buyout of Weldex Holdings Limited.

Weldex is the UK market leading crawler crane hire company. Its cranes, including the two largest in the UK, have been used in a number of significant construction projects including Heathrow Terminal 5, the iconic arch at the new Wembley Stadium and the 2012 Olympic site. The company is well placed to benefit from the rapid growth in offshore wind farm developments and UK power station construction and decommissioning.

In the year to 30 November 2009, the audited operating profit of Weldex was £6.9m on turnover of £27.2m.

## WFEL Holdings Limited

| | |
|---|---|
| Percentage of equity held | 23.2% |
| Cost of investment | £7.3m |
| Directors' valuation | £7.7m |
| Percentage of Dunedin Enterprise's net assets | 5.1% |

In December 2006, Dunedin Enterprise invested £6.4m in the £48m management buyout of WFEL Holdings. Additional funding was provided in 2010.

WFEL is a world leading manufacturer of mobile military bridges. It provides high specification, high functionality, complex bridging systems predominantly to the US Department of Defence and also to other military users around the world. In addition, WFEL is the sole supplier of specialist consumable steel rods used in the reactors of the UK's fourteen Advanced Gas Cooled Nuclear reactors.

WFEL has a suite of mobile bridge products which also have applications in disaster relief and non-military areas. These bridge systems can be transported by vehicles or helicopters or dropped by parachute from aircraft.

In the year to 31 December 2009, the audited operating profit of WFEL was £1.0m (2008: £2.7m), on turnover of £38.4m (2008: £27.9m). There has been no loan interest received by Dunedin Enterprise during the year to 31 December 2010 (2009: £0.1m). The net assets of WFEL at 31 December 2009 amounted to -£3.6m (2008: -£1.6m).

etc.venues

| | |
|---|---|
| Percentage of equity held | 27.9% |
| Cost of investment | £3.4m |
| Directors' valuation | £7.3m |
| Percentage of Dunedin Enterprise's net assets | 4.9% |

## etc.venues Group Limited

In June 2006, Dunedin Enterprise invested £3.2m in the £21m management buyout/management buyin of etc.venues Group.

etc.venues is a provider of meeting, training and event space, operating from seven venues in London and one in Birmingham. All venues are purpose designed and renowned for their well resourced facilities, range of flexible rooms and layouts, central locations and high levels of service.

Funding was provided to facilitate a roll out across the UK. In 2010 a new venue was opened at Moorgate, London, taking the total estate to 144,000sq ft. Leases have been signed to open two further venues in 2011.

In the year ended 30 June 2010, the audited operating profit of etc.venues was £2.4m (2009: £2.1m) on turnover of £15.7m (2009: £14.8m). Loan interest of £0.2m was received by Dunedin Enterprise in the year to 31 December 2010 (2009: £0.2m). The net assets of etc.venues as at 30 June 2010 were £2.5m (2009: £1.7m).

CGI
INTERNATIONAL LTD

| | |
|---|---|
| Percentage of equity held | 41.4% |
| Cost of investment | £8.5m |
| Directors' valuation | £5.7m |
| Percentage of Dunedin Enterprise's net assets | 3.8% |

## C.G.I. Group Holdings Limited

Dunedin Enterprise first invested in CGI in 1998, in support of a management buyout of the company. Since that time the company has been through two refinancings allowing Dunedin Enterprise to realise a total of £12.9m in capital and income to date from this investment.

CGI is a leading manufacturer and supplier of specialist glasses, mainly fire resistant glasses which are either manufactured by CGI or sourced exclusively worldwide. The company exports two thirds of its production from its base in Haydock, Merseyside.

In the year ended 31 December 2009, the audited operating profit of CGI was £1.4m (2008: £2.5m) on turnover of £11.6m (2009: £10.7m). The net assets of CGI as at 31 December 2009 were -£0.9m (2008: -£0.2m).

## U-Pol Group Limited

| | |
|---|---|
| Percentage of equity held | 5.2% |
| Cost of investment | £5.7m |
| Directors' valuation | £5.7m |
| Percentage of Dunedin Enterprise's net assets | 3.8% |

In December 2010, Dunedin Enterprise invested £5.7m in the tertiary management buyout of U-Pol Group Limited.

U-Pol is the leading independent manufacturer of branded automotive refinishing consumables such as fillers, polishes and coatings used in car body shops. The company manufacturers its products in a single facility in Wellingborough and sells to 110 countries worldwide.

In the year ended 31 December 2009, the audited operating profit of U-Pol was £12.2m on turnover of £46.3m.

## Hawksford International Limited

| | |
|---|---|
| Percentage of equity held | 16.0% |
| Cost of investment | £3.7m |
| Directors' valuation | £4.8m |
| Percentage of Dunedin Enterprise's net assets | 3.2% |

Dunedin Enterprise invested £3.7m in the £23.5m buyout of Rathbone International in October 2008. The business was immediately renamed Hawksford International following the deal. A £13.5m senior debt refinancing was concluded three weeks after completing the buyout.

Hawksford International designs, establishes and administers trusts, foundations, family offices, companies and private trust companies for high and ultra high net worth individuals and corporate clients on a global basis. The business, which has its foundations in the mid-nineteenth century, has been built through a series of amalgamations of professional firms in Jersey, the second largest global centre for offshore trust administration services, and where Hawksford International has its headquarters.

In the year ended 31 December 2009, the audited operating profit of Hawksford was £0.7m on turnover of £13.2m. The net assets of Hawksford of 31 December 2009 amounted to -£1.0m.

# The Remaining Investments in the Top Twenty (held directly and via funds)

| Company<br>Last reported<br>Description of business | Proportion of fully diluted capital owned % | Book cost £m | Valuation £m | Percentage of net assets % |
|---|---|---|---|---|
| Capula Group Limited<br>31.12.09<br>Provider of real time automation systems | 37.5 | 8.4 | 4.5 | 3.0 |
| Deutsche Beteiligungs AG<br>31.10.09<br>German listed private equity company | 1.8 | 4.4 | 4.4 | 2.9 |
| Egeria Private Equity Fund III<br>31.12.09<br>Dutch private equity fund | 3.4 | 4.6 | 4.1 | 2.7 |
| RSL Steeper Holdings Limited<br>28.02.10<br>Supplier of rehabilitation services | 37.1 | 5.1 | 3.9 | 2.6 |
| Realza Capital Fondo FCR<br>31.12.09<br>Spanish private equity fund | 8.9 | 3.3 | 3.7 | 2.5 |
| Formaplex Limited<br>31.12.09<br>Design and manufacture of specialist components for the automotive industry | 16.0 | 1.7 | 3.7 | 2.4 |
| FSN Capital III LP<br>31.12.09<br>Nordic private equity fund | 3.3 | 3.6 | 3.0 | 2.0 |
| CapMan Oy<br>31.12.09<br>Nordic quoted private equity company | 2.3 | 4.8 | 3.0 | 2.0 |
| GIMV<br>31.03.10<br>Belgian quoted private equity company | 0.4 | 3.0 | 3.0 | 2.0 |
| Innova/5 LP<br>31.12.09<br>Central European private equity fund | 3.9 | 1.5 | 1.3 | 0.9 |

# Long Term Record

| Ended 30 April | Net Assets £'000 | Revenue available for ordinary shareholders £'000 | Per Ordinary Share: 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 |
| 2006 | 151,304 | 4,236 | 498.2 | 13.9 | 11.45 | 457.75 |
| 2007 | 163,717 | 3,727 | 541.9 | 12.3 | 10.7 | 462.0 |
| **Ended 31 December** | | | | | | |
| 2007 | 159,947 | 2,516 | 529.5 | 8.3 | 7.5 | 415.75 |
| 2008 | 130,777 | 8,825 | 433.4 | 29.2 | 25.85 | 211.0 |
| 2009 | 122,856 | 726 | 407.1 | 2.4 | 2.5 | 266.5 |
| **2010** | **150,083** | **1,125** | **497.3** | **3.7** | **3.8** | **300.0** |

* Restated taking account of the dilution following the issue of shares as a result of the exercise of warrants on 31 August 1994.

# Information for Investors

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 (“Aberdeen”) products, should be directed to Dunedin at 10 George Street, Edinburgh, EH2 2DW or info@dunedinenterprise.com.

The Company’s share price appears under the heading ‘Investment Companies’ in The Financial Times, and other national newspapers. Prices are also available on the Company website www.dunedinenterprise.com or on the Aberdeen site www.dunedinenterprisetrust.com or else on various websites such as 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 savings products.

Details of the Aberdeen savings products are noted below:

**Share Plan (the “Plan”)** offers a simple means of investing in Dunedin Enterprise. New investors may make regular monthly payments (minimum £100 per month) or invest occasional lump sums (minimum £250). Existing shareholders can also transfer their shares into the Share Plan and have their dividends re-invested. There are no charges for buying and holding shares through the Share Plan, except the 0.5% stamp duty which is currently payable on all share purchases and the difference between the buying and selling price (known as the bid-offer spread). A transaction fee of £10 plus VAT is charged on all sales. 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.

**Individual Savings Account (ISA) and ISA transfer** – the Investment Trust ISA is a low-cost, tax-efficient savings vehicle. Since 6 April 2010, the ISA subscription limit has been £10,200 for anyone eligible to invest. There is no initial charge for Aberdeen’s ISA and the annual administration charge is fixed at £24 plus VAT, regardless of how many ISAs are held through Aberdeen. There is no charge for buying shares, except for 0.5% stamp duty and the difference between the buying and selling price (known as the bid-offer spread). A transaction fee of £15 plus VAT is charged on all sales.

To obtain further information about any of the above savings plans, please call the Aberdeen Investor Services Team on 0500 00 00 40 or visit the Aberdeen’s Asset Managers investment trust website at www.invtrusts.co.uk.

For information relating to savings products 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

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

For information regarding a shareholding not held through a savings plan, please contact:

**Registrar**
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2440*
Textel/hard of hearing line: 0871 384 2255*
Website: www.shareview.co.uk

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

**Important Information**
Risk factors you should consider prior to investing:

- In common with most investment companies, investment trusts may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that a relatively small movement, down or up, in the value of a trust's assets will result in a magnified movement, in the same direction, of that NAV.
- The Company invests in small companies, and/or companies investing in technology or venture and development capital stocks, where the potential volatility may increase the risk to the value of your investment. Above average price movements may be expected.
- The Company invests in a specialist market sector and is likely to carry higher risks than a more widely invested fund.
- The value of shares and the income from them can go down as well as up and you may get back less than the amount invested.
- Past performance is not a guide to the future.
- Exposure to a single country market increases potential volatility.
- There is no guarantee that the market price of shares in the Company will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of investment trust shares purchases will immediately fall by the difference between the buying and selling prices, the bid-offer spread.

**Other Important Information:**
The information contained on pages 16 to 17 has been issued by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Services Authority in the United Kingdom. Registered Office: 10 Queen's Terrace, Aberdeen AB10 1YG. Registered in Scotland No. 108419.

The Company is managed by Dunedin and marketed by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Services Authority in the United Kingdom. Aberdeen Asset Managers Limited is a member of the Aberdeen Asset Management group of companies. An investment trust should be considered only as part of a balanced portfolio. Under no circumstances should this information be considered as an offer or solicitation to deal in investments.

## Contents

# Directors' Report

The Directors present the audited accounts for the year to 31 December 2010 and the report on its affairs. Dunedin Enterprise Investment Trust PLC's company number is SC52844.

**Business Review**
The Business Review includes the Chairman's Statement on pages 3 to 4, the Manager's Review on pages 7 to 9 and this Directors' Report on pages 19 to 22.

**Investment Objective and Investment Policy**
The Company's investment objective and investment policy is detailed on page 6.

**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 ('KPIs') 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 KPIs are shown on pages 2 and 15.

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 on page 22, the Board intends to seek renewal of its annual share buyback 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 and outlook is contained in the Chairman's Statement and the Manager's Review on pages 3 to 4 and 7 to 9 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.

**Principal Risks, Risk Management and Regulatory Environment**
The Board believes that the principal risks faced by the Company are:

- Economic risk – events such as an economic recession or movement in stock markets and interest rates would affect portfolio company valuations and their ability to access capital for their business.
- Liquidity risk – the Company's investments may be difficult to realise. The majority of investments are in unquoted companies which by their nature are not readily realisable assets.
- Currency risk – a movement in exchange rates could affect portfolio company valuations.
- People risk – key employees of the Manager leave Dunedin.
- Loss of approval as an Investment Trust – the Company must comply with Section 1158 of the Corporation Tax Act 2010 which allows it to be exempted from capital gains on investment gains. Any breach of these rules may lead to the Company losing its approval as an Investment Trust and losing its exemption from corporation tax on capital gains.
- Regulatory – the Company is required to comply with the Companies Act, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. There is also planned European legislation which could impact on the business, although this is yet to be finalised.
- Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.
- Operational – failure of the Manager's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.
- Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the Turnbull guidance. Details of the Company's internal controls are contained in the Corporate Governance Report on pages 23 to 25.

**Financials**
The financial highlights for the year under review are detailed on page 2.

**Dividends**
A final dividend of 3.8p is to be paid to shareholders on 20 May 2011, to shareholders on the register at close of business on 15 April 2011. The ex-dividend date is 13 April 2011. The dividend for the year of 3.8p compares to 2.5p for 2009.

**Going Concern**
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 to 4. The financial position of the Group, its cash flows and liquidity position are described in the Manager's Review on pages 7 to 9. In addition note 20 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

# Directors' Report continued

### Status
The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

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 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2010. 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 1158 of the Corporation Tax Act 2010 each year.

Approval for the year ended 31 December 2010 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
Details of the current Directors of the Company are shown on page 5.

In accordance with the Combined Code and the Listing Rules respectively, Edward Dawnay, Liz Airey and David Gamble will retire from the Board and, being eligible, offer themselves for re-election at the Annual General Meeting ("AGM").

Under the terms of the Combined Code, non-executive directors may serve longer than nine years subject to annual re-election. Edward Dawnay and David Gamble have served longer than nine years and are therefore subject to annual re-election. The Board has considered the independence of each Director and subscribes to the view expressed in the AIC Code that long serving Directors should not be prevented from being considered as independent. The Board believes that Edward Dawnay and David Gamble retain independence of character and judgement.

The re-election of Edward Dawnay, Liz Airey and David Gamble is recommended to shareholders as their skills and experience continue to add to the strength of the Board.

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. The Company has entered into deeds of indemnity with each of the Directors. These are qualifying third party indemnity provisions and are in force as at the date of this report. This information is disclosed in accordance with Sections 236(2) and 236(3) of the Companies Act 2006.

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

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Edward Dawnay | **16,025** | 14,918 |
| Liz Airey | **25,000** | 25,000 |
| Brian Finlayson | **76,133** | 74,118 |
| David Gamble | **13,000** | 13,000 |
| Federico Marescotti | **–** | – |
| Simon Miller | **15,000** | 15,000 |

The Company has been notified that Federico Marescotti purchased 2,500 ordinary shares on 25 February 2011.

No other notifications of any change in the above interests has been received in the period from 31 December 2010 to the date of this report.

Brian Finlayson holds a power of attorney in respect of 2,015 shares held by his son, Fionnlagh Finlayson. He does not have the power to vote these shares. These shares are included in the interest noted for Brian Finlayson of 76,133.

### Investment Manager
The principal terms of the Company's management agreement with Dunedin Capital Partners Limited ("Dunedin") are set out in Note 4 to the financial statements.

The Board has thoroughly reviewed Dunedin's investment policy and process. The review covered the performance of the investment manager, 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.

In May 2008, the Company's shareholders approved new management incentive arrangements and the introduction of two new investments classes within the overall assets of the Company, the Fund of Funds Limited Partnership which will make commitments predominantly to European buyout funds and the Co-investment Limited Partnership which will make co-investments principally alongside funds where Dunedin Enterprise is, or is seeking to become, an investor. The Company is a limited partner in both partnerships as are Dunedin's executives who invest in the partnerships as a limited partner (through the Fund of Funds Founder Partner and the Co-investment Fund Founder Partner). Dunedin is the general partner of both partnerships.

While the co-investment scheme for Dunedin executives operated by Dunedin Enterprise (under which selected Dunedin executives invested their own funds in ordinary shares alongside direct investments by the Company) has been replaced by the new Co-investment Limited Partnership, the co-investment scheme continues to operate for investments made prior to May 2008. The Fund of Funds Limited Partnership, the Co-Investment Limited Partnership and the Dunedin managed funds operate carried interest schemes. Dunedin executives participate in these carried interest schemes.

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

### Director's Conflicts of Interest
The Companies Act 2006, set out Directors' general duties and from 1 October 2008 a Director, under this Act, must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The 2006 Act allows Directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles of Association contain provisions to this effect. The Company's articles give the Directors authority to approve such situations.

The Company maintains a register of Directors' conflicts of interest which have been disclosed and approved by the other Directors. The register is kept up to date and the Directors are required to disclose to the Company Secretary any change to conflicts or any potential new conflicts.

**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 31 March 2011.

| | Ordinary shares | % of issued share capital |
|---|---|---|
| Legal & General Group Plc | 8,370,622 | 27.7 |
| Baillie Gifford Diversified Growth Fund | 1,400,000 | 4.6 |
| East Riding of Yorkshire Council | 1,301,868 | 4.3 |
| Standard Life Investments Limited | 979,998 | 3.2 |

**Share Capital**
At 31 December 2010, the Company had 30,177,380 Ordinary Shares of 25p each, fully paid. The Company did not repurchase any Ordinary Shares during the year.

*Dividends*
The Ordinary Shares carry a right to receive dividends which are subject to shareholder approval.

*Capital Entitlement*
On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholding.

*Voting Rights*
Each ordinary shareholder present in person or by proxy is entitled to one vote in a show of hands and, on a poll, to one vote for every share held.

**Charitable and Political Donations**
The Company made no political or charitable donations during the year.

**Social, Community and Environmental Policy**
As an investment trust, the Company has no direct social, community or environmental responsibilities. The Manager with the support of the Board, does however, take these issues into consideration with regard to investment decisions on behalf of the Company.

**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 31 December 2010.

**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.

**Corporate Governance**
The statement on Corporate Governance on pages 23 to 25 is included in the Directors' Report by reference.

**Annual General Meeting ("AGM")**
The AGM of the Company will be held at The Balmoral Hotel, 1 Princes Street, Edinburgh, EH2 2EQ on Monday, 16 May 2011 at 11.00am. Notice of the AGM is given on pages 49 to 51 of this report. Set out below is an explanation of resolutions 7 to 11 to be considered at the AGM.

**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 as resolution 7 at the AGM.

**Authority of directors to allot shares**
Resolutions 8 and 9 to be proposed at the AGM relate to the allotment of shares.

If approved, resolution 8 would empower the Directors to allot shares of the Company up to a maximum aggregate nominal amount of £2,514,781 being an amount equal to one third of the issued share capital of the Company as at 4 April 2011 for cash.

If approved, resolution 9 would empower Directors to allot shares of the Company up to a maximum aggregate nominal amount of £377,217 being an amount equal to five per cent of the issued share capital of the Company as at 4 April 2011 as if Section 561 of the Companies Act 2006 did not apply. This section requires, when shares are to be allotted for cash, such new shares first be offered to existing shareholders in proportion to their existing holdings of shares, this entitlement being known as "pre-emption rights".

The authorities contained in resolutions 8 and 9 will continue until the Annual General Meeting of the Company in 2012. The Directors do not have any immediate plans to make use of these authorities.

**Authority to buy back shares**
Resolution 10 relates to the Directors' authority to buy back shares for cancellation. This authority was renewed at last year's AGM, and, unless renewed, will expire at the conclusion of this year's AGM. The 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 the remaining shareholders. The Directors propose to renew the authority at this year's AGM, and seek authority to purchase up to 4,526,606 ordinary shares (being 14.99% of the issued share capital as at 4 April 2011). This authority will expire at the conclusion of the AGM of the Company in 2012 (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 not more than the higher of (i) 5% above the average market values of the ordinary shares for the five business days before the day on which the purchase is made and (ii) that stipulated by Article 5 (i) of the Buy-back and Stabilisation Regulation. 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.

**Notice of General Meetings**
The Shareholder Rights Directive was implemented in the UK in August 2009. One of the requirements of the Directive is that all general meetings must be held on 21 days' notice unless shareholders agree to a shorter notice period. Resolution 11 seeks to renew this shareholder approval. The approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice. The Directors only intend to call a general meeting on less than 21 days notice where the proposals are time sensitive and the short notice would clearly be an advantage to shareholders as a whole.

Your Directors consider that all the resolutions set out in the Notice of Annual General Meeting given on pages 49 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.

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

# Corporate Governance Report

The Board considers that the Company has complied with the provisions contained in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Combined Code") and the recommendations of the AIC's Code of Corporate Governance issued in March 2009 (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment companies ("the AIC Guide") throughout this accounting period with the exception of the matters noted below.

The AIC Code and the AIC Guide can both be found on the AIC website (www.theaic.co.uk) and a copy of the Combined Code can be found at www.frc.org.uk.

**The Board**

The Board consists of six non-executive Directors, five of whom the Company deems to be independent, even though two of them have served as a Directors for over nine years. Their biographies, on page 5, 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 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 social, ethical and other business issues.

As an institutional investor, the Company recognises its responsibility that the companies in which it invests should aspire to appropriate levels of corporate governance. As a matter of policy, the Company aims to utilise its votes in shares held in the relevant underlying portfolio companies at the annual general meetings of these companies.

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.

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 Nomination Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings and three Nomination Committee meetings.

| Directors | Board meetings attended | Audit Committee meetings attended | Nomination Committee meetings attended |
|---|---|---|---|
| Edward Dawnay | 4 | 2 | 2 |
| Liz Airey | 5 | 2 | 3 |
| Brian Finlayson | 5 | 2 | 3 |
| David Gamble | 5 | 2 | 3 |
| Federico Marescotti | 5 | 2 | 3 |
| Simon Miller | 5 | – | – |

### Board Committees
The Board has appointed two committees, the Audit Committee and the Nomination Committee.

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

- to review the interim and annual financial statements, matters relating to accounting policy, laws and regulations, and the control of the financial and business risks affecting the Company. The Board rather than the Audit Committee approve the valuation of investments;
- to review the Manager's report on internal control systems and the policies and procedures for the identification and assessment of business risks and the management of these risks;
- 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 to review such fees having regard to their independence; and
- to perform an annual evaluation of the independence, objectivity, effectiveness, resources and qualifications of the auditors.

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

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's website.

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. The Board monitors and evaluates other service providers.

### 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 January 2010 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. These risks are detailed in Note 20. 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 31 December 2010.

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 Committee.

The Audit Committee's policy on the engagement of the auditor to provide non audit services is that fees in excess of £50,000 for taxation services and £20,000 for non taxation services require approval by the Audit Committee.

The Audit 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 31 December 2010 comprised the provision of taxation and accounting advice at a cost of £51,000, as detailed in Note 5 to the accounts, and are 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 Committee has been informed by the Manager that these policies meet the industry standards.

## 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 19 to 22. 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 16 to 17, provides an overview of useful information available to shareholders.

The Company's website is www.dunedinenterprise.com. The Manager's presentation to shareholders will be available on the website after the AGM.

## Membership of Board Committees

### Audit Committee

Liz Airey (Chairman)
Edward Dawnay
Brian Finlayson
David Gamble
Federico Marescotti

### Nomination Committee

Edward Dawnay (Chairman)
Liz Airey
Brian Finlayson
David Gamble
Federico Marescotti

# Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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 complies with that law and those regulations.

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

Under the Disclosure and Transparency Rules the Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that it faces.

# Directors' Remuneration Report

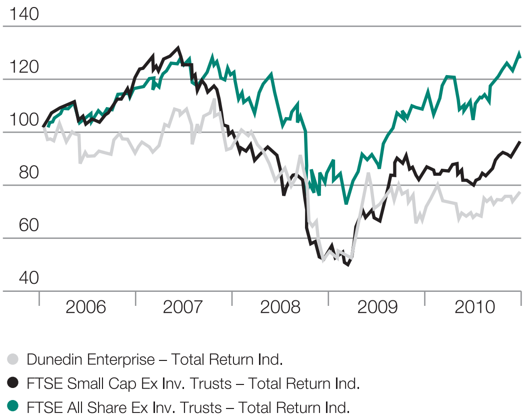
The determination of the Directors' fees is a matter dealt with by the whole Board in lieu of a designated Remuneration Committee. The level of fees payable to Directors is reviewed annually by the whole Board.

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. Each Director has a letter of appointment setting out the terms and conditions of their appointment and such letters are available for inspection. Each Director's appointment may be terminated by the Company on three months' notice. No Director has a service contract with the Company.

**Performance Graph**

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




Source: Datastream

**Directors' Remuneration**

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Edward Dawnay | **33** | 33 |
| Liz Airey | **25** | 24 |
| Brian Finlayson | **22** | 22 |
| David Gamble | **25** | 25 |
| Federico Marescotti | **22** | 13 |
| Simon Miller | **22** | 22 |
| Bruce Patrick* | **8** | 22 |
| | **157** | 161 |

* resigned on 17 May 2010

The information in the above table has been audited. Included in the above are fees totalling £22,000 payable to Dunedin, the Company's investment manager, for making available the services of Simon Miller as a Director of the Company.

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 above. Their report on these matters is set out on page 28.

By order of the Board,
**Dunedin Capital Partners Limited**
Secretary
22 February 2011

# Independent Auditors' Report

**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 31 December 2010 set out on pages 29 to 47. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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**

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

**Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 19, in relation to going concern;
- the part of the Corporate Governance Statement on pages 23 to 25 of the Report and Accounts relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board of Directors' Remunerations

**Simon Pashby (Senior Statutory Auditor)**
**for and on behalf of KPMG Audit Plc,**
**Statutory Auditor**

Chartered Accountants
Edinburgh

22 February 2011

# Consolidated Income Statement

| | Notes | Revenue £'000 | Capital £'000 | 2010 Total £'000 | Revenue £'000 | Capital £'000 | 2009 Total £'000 |
|---|---|---|---|---|---|---|---|
| Investment income | 3 | **2,401** | **–** | **2,401** | 2,005 | – | 2,005 |
| Gains/(losses) on investments | 10 | **–** | **27,325** | **27,325** | – | (777) | (777) |
| **Total income** | | **2,401** | **27,325** | **29,726** | 2,005 | (777) | 1,228 |
| **Expenses** | | | | | | | |
| Investment management fee | 4 | **(265)** | **(794)** | **(1,059)** | (244) | (732) | (976) |
| Other expenses | 5 | **(641)** | **–** | **(641)** | (743) | – | (743) |
| **Profit/(loss) before finance costs and tax** | | **1,495** | **26,531** | **28,026** | 1,018 | (1,509) | (491) |
| Finance costs | 6 | **(22)** | **(66)** | **(88)** | (54) | (160) | (214) |
| **Profit/(loss) before tax** | | **1,473** | **26,465** | **27,938** | 964 | (1,669) | (705) |
| Taxation | 7 | **(348)** | **241** | **(107)** | (238) | 250 | 12 |
| **Profit/(loss) for the year** | | **1,125** | **26,706** | **27,831** | 726 | (1,419) | (693) |
| Basic return per ordinary share (basic & diluted) | 9 | **3.7p** | **88.5p** | **92.2p** | 2.4p | (4.7p) | (2.3p) |

The total column of this statement represents the Income Statement of the Group, prepared in accordance with International Financial Reporting Standards as adopted by the EU. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity shareholders of Dunedin Enterprise Investment Trust PLC.

The notes on pages 36 to 47 form part of the financial statements.

# Consolidated Balance Sheet

| | Notes | £'000 | 2010 £'000 | £'000 | 2009 £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investments at fair value through profit or loss | 10 | | **152,312** | | 118,243 |
| **Current assets** | | | | | |
| Other receivables | 11 | **241** | | 471 | |
| Cash and cash equivalents | | **4,177** | | 4,620 | |
| | | **4,418** | | 5,091 | |
| **Current liabilities** | | | | | |
| Other liabilities | 12 | **(6,270)** | | (108) | |
| Current tax liabilities | 12 | **(377)** | | (370) | |
| | | **(6,647)** | | (478) | |
| **Net current (liabilities)/assets** | | | **(2,229)** | | 4,613 |
| **Net assets** | | | **150,083** | | 122,856 |
| **Capital and reserves** | | | | | |
| Share capital | 13 | | **7,544** | | 7,544 |
| Share premium | 14 | | **47,600** | | 47,600 |
| Capital redemption reserve | 14 | | **382** | | 382 |
| Capital reserve – realised | 14 | | **96,460** | | 102,651 |
| Capital reserve – unrealised | 14 | | **(8,109)** | | (41,006) |
| Revenue reserve | 14 | | **6,206** | | 5,685 |
| **Total equity shareholders' funds** | | | **150,083** | | 122,856 |
| **Net asset value per share (basic & diluted)** | 15 | | **497.3p** | | 407.1p |

The financial statements were approved by the Board of Directors on 22 February 2011.

**Edward Dawnay, Chairman**

The notes on pages 36 to 47 form part of the financial statements.

# Company Balance Sheet

| | Notes | £'000 | 2010 £'000 | £'000 | 2009 £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investments at fair value through profit or loss | 10 | **129,759** | | 113,065 | |
| Subsidiary undertakings | 21 | **22,802** | | 4,979 | |
| | | | **152,561** | | 118,044 |
| **Current assets** | | | | | |
| Other receivables | 11 | **103** | | 1,197 | |
| Cash and cash equivalents | | **4,058** | | 4,093 | |
| | | **4,161** | | 5,290 | |
| **Current liabilities** | | | | | |
| Other liabilities | 12 | **(6,262)** | | (108) | |
| Current tax liabilities | 12 | **(377)** | | (370) | |
| | | **(6,639)** | | (478) | |
| **Net current (liabilities)/assets** | | | **(2,478)** | | 4,812 |
| **Net assets** | | | **150,083** | | 122,856 |
| **Capital and reserves** | | | | | |
| Share capital | 13 | | **7,544** | | 7,544 |
| Share premium | 14 | | **47,600** | | 47,600 |
| Capital redemption reserve | 14 | | **382** | | 382 |
| Capital reserve – realised | 14 | | **96,906** | | 102,886 |
| Capital reserve – unrealised | 14 | | **(8,885)** | | (41,450) |
| Revenue reserve | 14 | | **6,536** | | 5,894 |
| **Total equity shareholders' funds** | | | **150,083** | | 122,856 |

The financial statements were approved by the Board of Directors on 22 February 2011.

**Edward Dawnay, Chairman**

The notes on pages 36 to 47 form part of the financial statements.

# Consolidated Cash Flow Statement

| | Notes | £'000 | 2010 £'000 | £'000 | 2009 £'000 |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 16 | | **912** | | 142 |
| **Servicing of finance** | | | | | |
| Finance costs | | | **(88)** | | (214) |
| **Investing activities** | | | | | |
| Purchase of investments | | **(32,520)** | | (7,050) | |
| Purchase of 'AAA' rated money market funds | | **(7,616)** | | (31,672) | |
| Maturity of exchange hedge | | **–** | | (8,599) | |
| Sale of investments | | **7,746** | | 9,443 | |
| Sale of 'AAA' rated money market funds | | **31,828** | | 50,100 | |
| **Net cash inflow/(outflow) from financial investment** | | | **(562)** | | 12,222 |
| **Taxation** | | | | | |
| Tax paid | | | **(101)** | | (967) |
| **Financing activities** | | | | | |
| Dividends paid | | | **(604)** | | (7,228) |
| **Net increase/(decrease) in cash and cash equivalents** | | | **(443)** | | 3,955 |
| | | | | | |
| Cash and cash equivalents at start of the year | | | **4,620** | | 665 |
| Net increase/(decrease) in cash and cash equivalents | | | **(443)** | | 3,955 |
| Cash and cash equivalents at end of the year | | | **4,177** | | 4,620 |

The notes on pages 36 to 47 form part of the financial statements.

# Company Cash Flow Statement

| | Notes | £'000 | 2010<br>£'000 | £'000 | 2009<br>£'000 |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 16 | | **2,161** | | 646 |
| **Servicing of finance** | | | | | |
| Finance costs | | | **(88)** | | (214) |
| **Investing activities** | | | | | |
| Purchase of investments | | **(25,136)** | | (3,158) | |
| Subsidiary investment | | **(7,712)** | | (4,057) | |
| Purchase of 'AAA' rated money market funds | | **(7,616)** | | (31,672) | |
| Maturity of exchange hedge | | **–** | | (8,599) | |
| Sale of investments | | **7,233** | | 8,609 | |
| Sale of 'AAA' rated money market funds | | **31,828** | | 50,100 | |
| **Net cash inflow/(outflow) from financial investment** | | | **(1,403)** | | 11,223 |
| **Taxation** | | | | | |
| Tax paid | | | **(101)** | | (967) |
| **Financing activities** | | | | | |
| Dividends paid | | | **(604)** | | (7,228) |
| **Net increase/(decrease) in cash and cash equivalents** | | | **(35)** | | 3,460 |
| Cash and cash equivalents at start of the year | | | **4,093** | | 633 |
| Net increase/(decrease) in cash and cash equivalents | | | **(35)** | | 3,460 |
| Cash and cash equivalents at end of the year | | | **4,058** | | 4,093 |

The notes on pages 36 to 47 form part of the financial statements.

# Consolidated Statement of Changes in Equity

| For the year ended 31 December 2010 | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve - realised £'000 | Capital reserve - unrealised £'000 | Revenue account £'000 | Total retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2009 | 7,544 | 47,600 | 382 | 102,651 | (41,006) | 5,685 | 67,330 | 122,856 |
| Profit/(loss) for the year | – | – | – | (6,191) | 32,897 | 1,125 | 27,831 | 27,831 |
| Dividends paid | – | – | – | – | – | (604) | (604) | (604) |
| At 31 December 2010 | 7,544 | 47,600 | 382 | 96,460 | (8,109) | 6,206 | 94,557 | 150,083 |

| For the year ended 31 December 2009 | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve - realised £'000 | Capital reserve - unrealised £'000 | Revenue account £'000 | Total retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2008 | 7,544 | 47,600 | 382 | 108,451 | (45,387) | 12,187 | 75,251 | 130,777 |
| Profit/(loss) for the year | – | – | – | (5,800) | 4,381 | 726 | (693) | (693) |
| Dividends paid | – | – | – | – | – | (7,228) | (7,228) | (7,228) |
| At 31 December 2009 | 7,544 | 47,600 | 382 | 102,651 | (41,006) | 5,685 | 67,330 | 122,856 |

The notes on pages 36 to 47 form part of the financial statements.

# Company Statement of Changes in Equity

| For the year ended 31 December 2010 | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve - realised £'000 | Capital reserve - unrealised £'000 | Revenue account £'000 | Total retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2009 | 7,544 | 47,600 | 382 | 102,886 | (41,450) | 5,894 | 67,330 | 122,856 |
| Profit/(loss) for the year | – | – | – | (5,980) | 32,565 | 1,246 | 27,831 | 27,831 |
| Dividends paid | – | – | – | – | – | (604) | (604) | (604) |
| At 31 December 2010 | 7,544 | 47,600 | 382 | 96,906 | (8,885) | 6,536 | 94,557 | 150,083 |

| For the year ended 31 December 2009 | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve - realised £'000 | Capital reserve - unrealised £'000 | Revenue account £'000 | Total retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2008 | 7,544 | 47,600 | 382 | 108,451 | (45,387) | 12,216 | 75,280 | 130,806 |
| Profit/(loss) for the year | – | – | – | (5,565) | 3,937 | 906 | (722) | (722) |
| Dividends paid | – | – | – | – | – | (7,228) | (7,228) | (7,228) |
| At 31 December 2009 | 7,544 | 47,600 | 382 | 102,886 | (41,450) | 5,894 | 67,330 | 122,856 |

The notes on pages 36 to 47 form part of the financial statements.

# Notes to the Accounts

## 1. Basis of Preparation

Dunedin Enterprise Investment Trust PLC (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

The principal accounting policies adopted by the Group and Company are set out below. The Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its income statement and related notes.

Where presentation guidance set out in the Statement of Recommended Practice (SORP) for investment trusts issued by the Association of Investment Companies in January 2009 is consistent with the requirements of IFRSs, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The financial statements are presented in pounds sterling, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant estimate is the valuation of unlisted investments which is described in note 2(g) below.

## 2. Accounting Policies

### a. Subsidiary undertakings

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Subsidiaries are valued at fair value.

### b. Associated Undertakings

The Group holds a number of investments in entities over which it has significant influence which meet the definition of associates in IAS28 Investment in Associates. The Company has taken advantage of the exemption from applying IAS28 as these investments are held as part of the Group's portfolio with a view to the ultimate realisation of capital gains. These investments are accounted for at fair value through profit and loss.

### c. Revenue/capital

The revenue column of the income statement includes all income and expenses except for the realised and unrealised profit and loss on investments and the proportion of management fee and finance costs charged to capital which are included in the capital column.

### d. 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 Group'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.

### e. Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to the revenue column within the Income Statement except that:

- expenses which are incidental to the acquisition or disposal of an investment are charged to the capital column 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 Group.

### f. Cash and cash equivalents

Cash and cash equivalents comprise current deposits with banks. These are subject to an insignificant risk of changes in value and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

### g. Valuation of investments

Purchases and sales of investments are recognised at the date of transaction. The Group'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 unless this is not considered to be an accurate representation of fair value. Unquoted investments are fair valued by the Directors in accordance with the following rules, which are consistent with the International Private Equity and Venture Capital Valuation Guidelines:

- 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 below. Generally the earnings multiple basis of valuation will be used.
- When valuing on an earnings multiple basis, fully taxed earnings for the last twelve months (or forecast earnings if lower) 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.
- An investment may be valued by reference to the value of its net assets. This is appropriate for businesses whose value derives mainly from the underlying value of its assets rather than its earnings.
- 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.
- Accrued interest on loans to portfolio companies is included in valuations where there is an expectation that the interest will be received.

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.

Gains and losses arising from changes in fair value are considered to be realised only to the extent that they are readily convertible to cash in full on the balance sheet date.

### h. 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 Group’s tax liability. Deferred taxation is provided on the balance sheet liability method on all temporary differences, calculated at the rate at which it is estimated that tax will be payable.

### i. Dividend

Dividends payable are recognised as a distribution and recorded in the Statement of Changes in Equity when they become a liability of the Group.

### j. Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

### k. Segmental analysis

The Group has one reportable segment being investing in a portfolio of private equity funds or companies.

## Notes to the Accounts

### 3. Income

| | Group 2010 £'000 | Group 2009 £'000 |
|---|---|---|
| Dividend income – UK | **41** | – |
| Dividend income – Overseas | **496** | 381 |
| Interest income – UK | **1,121** | 598 |
| Limited partnership income – UK | **380** | 349 |
| 'AAA' rated money market funds | **238** | 671 |
| | **2,276** | 1,999 |
| Deposit interest* | **125** | 6 |
| **Total income** | **2,401** | 2,005 |

*income arising from financial assets that are not investments designated as fair value through profit or loss.

### 4. Investment management fee

| | Revenue £'000 | Capital £'000 | Group 2010 Total £'000 | Revenue £'000 | Capital £'000 | Group 2009 Total £'000 |
|---|---|---|---|---|---|---|
| Investment management fee | **265** | **794** | **1,059** | 244 | 732 | 976 |

Dunedin provides investment management and general administration services to the Company. The terms of the management fee arrangements are detailed on page 48.

### 5. Other expenses

Profit/(loss) on ordinary activities before taxation is shown after charging the following amounts:

| | Group 2010 £'000 | Group 2009 £'000 |
|---|---|---|
| Directors' fees | **157** | 161 |
| Fees payable to the Company's auditor for audit of Company's financial statements | **25** | 24 |
| Fees payable to the Company's auditor for other services: | | |
| – audit of Company's subsidiaries | **5** | 5 |
| – other services pursuant to legislation (interim review) | **6** | 6 |
| – other services relating to taxation | **41** | 40 |
| – other | **4** | 5 |
| Administration expenses | **403** | 412 |
| Deal abort fees | **–** | 90 |
| | **641** | 743 |

The Company does not directly employ any staff.

### 6. Interest payable

| | Revenue £'000 | Capital £'000 | Group 2010 Total £'000 | Revenue £'000 | Capital £'000 | Group 2009 Total £'000 |
|---|---|---|---|---|---|---|
| On bank loans and overdraft: | | | | | | |
| Repayable in less than 5 years | **22** | **66** | **88** | 54 | 160 | 214 |

The interest paid represents a fee on an undrawn facility.

### 7. Taxation on profit on ordinary activities

| | Revenue £'000 | Capital £'000 | Group 2010 Total £'000 | Revenue £'000 | Capital £'000 | Group 2009 Total £'000 |
|---|---|---|---|---|---|---|
| (a) Analysis of charge/(credit) for the year: | | | | | | |
| UK corporation tax at 28% (2009: 28%) | **260** | **(241)** | **19** | 291 | (250) | 41 |
| Foreign tax | **88** | **–** | **88** | 64 | – | 64 |
| Prior year adjustment | **–** | **–** | **–** | (117) | – | (117) |
| | **348** | **(241)** | **107** | 238 | (250) | (12) |

(b) Factors affecting the tax charge for the year:

| | Group 2010 £'000 | Group 2009 £'000 |
|---|---|---|
| Total return on ordinary activities before tax | **27,938** | (705) |
| UK Corporation Tax at 28% (2009: 28%) | **7,823** | (198) |
| Effects of: | | |
| Capital gains/(losses) not subject to corporation tax | **(7,651)** | 218 |
| Foreign tax | **88** | 64 |
| Dividends not subject to corporation tax | **(153)** | – |
| Prior year adjustment | **–** | (117) |
| Expenses not deductible for tax purposes | **–** | 21 |
| | **107** | (12) |

### 8. Dividends

Amounts recognised as distributions to equity holders in the year:

| | Group 2010 £'000 | Group 2009 £'000 |
|---|---|---|
| Final dividend for the year ended 31 December 2008 – 8.85p paid 15 May 2009 | **–** | 2,671 |
| Special dividend for the year ended 31 December 2008 – 14.6p paid 15 May 2009 | **–** | 4,406 |
| Interim dividend for the year ended 31 December 2009 – 0.5p paid 31 August 2009 | **–** | 151 |
| Final interim dividend for the year ended 31 December 2009 – 2.0p paid 31 March 2010 | **604** | – |
| | **604** | 7,228 |

The final dividend has not been included as a liability in these financial statements. The total dividend paid and proposed in respect of the financial year, which is the basis upon which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered, is noted below.

| | Group 2010 £'000 | Group 2009 £'000 |
|---|---|---|
| Interim dividend for the year ended 31 December 2009 – 0.5p paid 31 August 2009 | **–** | 151 |
| Final interim dividend for the year ended 31 December 2009 – 2.0p paid 31 March 2010 | **–** | 604 |
| Final dividend for the year ended 31 December 2010 – 3.8p to be paid on 20 May 2011 | **1,147** | – |
| | **1,147** | 755 |

## 9. Return per ordinary share

Basic total return per ordinary share is based on total return attributable to equity shareholders of £27,830,597 (2009: loss £693,476) and on 30,177,380 shares (2009: 30,177,380) being the weighted average number of ordinary shares in issue during the period. Earnings per share is based on the Revenue profit/(loss) in the period as shown in the Consolidated Income Statement.

## 10. Investments

All investments are designated fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss. Given the nature of the Company's investments the fair value gains recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and therefore the movement in these fair values are treated as unrealised.

The Company is a limited partner in Dunedin Buyout Fund I, Dunedin Buyout Fund II and Equity Harvest Fund. Investments held in the Dunedin Buyout Fund I, Dunedin Buyout Fund II and Equity Harvest Fund are shown on a look through basis.

| | **Group 2010 £'000** | **Company 2010 £'000** | Group 2009 £'000 | Company 2009 £'000 |
|---|---|---|---|---|
| Unlisted UK investments* | **88,925** | **78,901** | 38,008 | 38,008 |
| Unlisted European investments | **12,529** | **–** | 5,178 | – |
| Listed European investments | **25,974** | **25,974** | 25,961 | 25,961 |
| 'AAA' rated money market funds | **24,884** | **24,884** | 49,096 | 49,096 |
| | **152,312** | **129,759** | 118,243 | 113,065 |

* Investments held via the Dunedin Buyout Fund I are valued at £1,354,530 (2009: £449,046), via the Equity Harvest Fund at £8,141,956 (2009: £4,072,121) and Dunedin Buyout Fund II LP £38,070,769 (2009: £10,070,066).

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.

### Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| | **2010 £'000** | 2009 £'000 |
|---|---|---|
| **Level 1** | | |
| Investments in listed European private equity | **11,563** | 13,382 |
| 'AAA' rated money market funds | **24,884** | 49,096 |
| **Level 2** | **–** | – |
| **Level 3** | | |
| Investments in listed European private equity | **14,411** | 12,579 |
| Unlisted investments | **101,454** | 43,186 |
| | **152,312** | 118,243 |

IFRS 7 requires disclosure, by class of financial instrument, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. On that basis the Board believe that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly.

| Group | Level 3 UK Unlisted £'000 | Level 3 European Unlisted £'000 | Level 1 European Listed £'000 | Level 3 European Listed £'000 | Level 1 'AAA rated money market funds £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Book cost at 31 December 2009 | 67,934 | 7,355 | 19,839 | 15,025 | 49,096 | 159,249 |
| Unrealised appreciation/(depreciation) | (29,926) | ( 2,177) | (6,457) | (2,446) | – | (41,006) |
| Valuation at 31 December 2009 | 38,008 | 5,178 | 13,382 | 12,579 | 49,096 | 118,243 |
| Purchases at cost | 31,398 | 7,386 | – | – | 7,616 | 46,400 |
| Sales – proceeds | (4,003) | (513) | (3,230) | – | (31,828) | (39,574) |
| – realised gains/(losses) on sales | (4,355) | 61 | (1,360) | – | – | (5,654) |
| Increase/(decrease) in unrealised appreciation | 27,877 | 417 | 2,771 | 1,832 | – | 32,897 |
| Valuation at 31 December 2010 | 88,925 | 12,529 | 11,563 | 14,411 | 24,884 | 152,312 |
| | | | | | | |
| Book cost at 31 December 2010 | 90,974 | 14,289 | 15,249 | 15,025 | 24,884 | 160,421 |
| Closing unrealised depreciation | (2,049) | (1,760) | (3,686) | (614) | – | (8,109) |

| Company | Level 3 UK Unlisted £'000 | Level 1 European Listed £'000 | Level 3 European Listed £'000 | Level 1 'AAA' rated money market funds £'000 | Total £'000 |
|---|---|---|---|---|---|
| Book cost at 31 December 2009 | 67,934 | 19,839 | 15,025 | 49,096 | 151,894 |
| Unrealised appreciation/(depreciation) | (29,926) | (6,457) | (2,446) | – | (38,829) |
| Valuation at 31 December 2009 | 38,008 | 13,382 | 12,579 | 49,096 | 113,065 |
| Purchases at cost | 31,398 | – | – | 7,616 | 39,014 |
| Sales – proceeds | (4,003) | (3,230) | – | (31,828) | (39,061) |
| – realised losses on sales | (4,355) | (1,360) | – | – | (5,715) |
| Transfer to subsidiary | (10,024) | – | – | – | (10,024) |
| Increase/(decrease) in unrealised appreciation | 27,877 | 2,771 | 1,832 | – | 32,480 |
| Valuation at 31 December 2010 | 78,901 | 11,563 | 14,411 | 24,884 | 129,759 |
| | | | | | |
| Book cost at 31 December 2010 | 80,950 | 15,249 | 15,025 | 24,884 | 136,108 |
| Closing unrealised depreciation | (2,049) | (3,686) | (614) | – | (6,349) |

| Group | Level 3 UK Unlisted £'000 | Level 3 European Unlisted £'000 | Level 1 European Listed £'000 | Level 3 European Listed £'000 | Level 1 'AAA' rated money market funds £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Book cost at 31 December 2008 | 70,068 | 4,171 | 19,839 | 15,025 | 67,524 | 176,627 |
| Unrealised appreciation/(depreciation) | (26,734) | (1,304) | (8,299) | 629 | – | (35,708) |
| Valuation at 31 December 2009 | 43,334 | 2,867 | 11,540 | 15,654 | 67,524 | 140,919 |
| Purchases at cost | 3,158 | 3,974 | – | – | 31,672 | 38,804 |
| Sales – proceeds | (8,436) | (834) | (173) | – | (50,100) | (59,543) |
| – realised gains on sales | 3,144 | 44 | 173 | – | – | 3,361 |
| Decrease in unrealised appreciation | (3,192) | (873) | 1,842 | (3,075) | – | (5,298) |
| Valuation at 31 December 2009 | 38,008 | 5,178 | 13,382 | 12,579 | 49,096 | 118,243 |
| | | | | | | |
| Book cost at 31 December 2009 | 67,934 | 7,355 | 19,839 | 15,025 | 49,096 | 159,249 |
| Closing unrealised depreciation | (29,926) | (2,177) | (6,457) | (2,446) | – | (41,006) |

| Company | Level 3<br>UK Unlisted<br>£'000 | Level 1<br>European Listed<br>£'000 | Level 3<br>European Listed<br>£'000 | Level 1<br>'AAA' rated money market funds<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|---|
| Book cost at 31 December 2008 | 70,068 | 19,839 | 15,025 | 67,524 | 172,456 |
| Unrealised appreciation/(depreciation) | (26,734) | (8,299) | 629 | – | (34,404) |
| Valuation at 31 December 2008 | 43,334 | 11,540 | 15,654 | 67,524 | 138,052 |
| Purchases at cost | 3,158 | – | – | 31,672 | 34,830 |
| Sales – proceeds | (8,436) | (173) | – | (50,100) | (58,709) |
| – realised gains on sales | 3,144 | 173 | – | – | 3,317 |
| Decrease in unrealised appreciation | (3,192) | 1,842 | (3,075) | – | (4,425) |
| Valuation at 31 December 2009 | 38,008 | 13,382 | 12,579 | 49,096 | 113,065 |
| | | | | | |
| Book cost at 31 December 2009 | 67,934 | 19,839 | 15,025 | 49,096 | 151,894 |
| Closing unrealised deprecation | (29,926) | (6,457) | (2,446) | – | (38,829) |

| | Group 2010 £'000 | Company 2010 £'000 | Group 2009 £'000 | Company 2009 £'000 |
|---|---|---|---|---|
| Realised gains/(losses) based on cost | **(5,654)** | **(5,715)** | 3,361 | 3,361 |
| Realised losses on exchange hedge | **–** | **–** | (8,599) | (8,599) |
| Unrealised appreciation/(depreciation) recognised in prior years | **7,439** | **7,491** | 10,114 | 10,114 |
| | **1,785** | **1,776** | 4,876 | 4,876 |
| Increase/(decrease) in unrealised depreciation | **25,458** | **25,074** | (5,733) | (6,177) |
| Other movements | **82** | **82** | 80 | 80 |
| | **27,325** | **26,932** | (777) | (1,221) |

Included within unlisted investments are investments valued at £53,304,726 (2009: £29,255,257) 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 2(b). These investments are listed below.

**Significant interests**

(a) At 31 December 2010, the Company held between 20% and 50% of the allotted share capital of the following companies:

| Name | Country of incorporation or registration | % of equity held directly | % of equity held directly and through funds | Latest available accounts | Share capital & reserves £'000 | Operating profit/(loss) for year £'000 |
|---|---|---|---|---|---|---|
| **CGI Group Holdings Limited** | England | 41.4 | 41.4 | 31.12.09 | (887) | 1,370 |
| **Capula Group Limited** | England | 22.8 | 37.5 | 31.12.09 | 387 | 1,053 |
| **Dunedin Buyout Fund II LP** | Scotland | 29.7 | 29.7 | 31.12.09 | n/a | n/a |
| **etc.venues Group Limited** | England | 17.0 | 27.9 | 30.06.10 | 2,460 | 2,388 |
| **Enrich Reward Limited** | England | – | 32.6 | 30.09.09 | (8,206) | (6,802) |
| **OSS Environmental Holdings Limited** | England | 40.2 | 40.2 | 31.12.09 | 2,739 | (280) |
| **Practice Plan Holdings Limited** | England | 22.9 | 26.1 | 30.06.10 | (6,413) | 3,345 |
| **RSL Steeper Holdings Limited** | England | 21.5 | 37.1 | 28.02.10 | 5,694 | 1,049 |
| **WFEL Holdings Limited** | England | – | 23.2 | 31.12.09 | (3,638) | 976 |

(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 |
|---|---|---|---|
| **CitySprint (UK) Group Limited** | England | – | 11.9 |
| **Dunedin Buyout Fund LP** | Scotland | 13.0 | 13.0 |
| **Formaplex Limited** | England | – | 16.0 |
| **Hawksford International Limited** | Jersey | – | 16.0 |
| **Weldex (International) Offshore Holdings Limited** | Scotland | – | 15.1 |

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.

### 11. Other receivables

| | **Group 2010 £'000** | **Company 2010 £'000** | Group 2009 £'000 | Company 2009 £'000 |
|---|---|---|---|---|
| Prepayments and accrued income | **241** | **103** | 471 | 363 |
| Amounts due from subsidiary undertaking | **–** | **–** | – | 834 |
| | **241** | **103** | 471 | 1,197 |

### 12. Creditors: amounts falling due within one year

| | **Group 2010 £'000** | **Company 2010 £'000** | Group 2009 £'000 | Company 2009 £'000 |
|---|---|---|---|---|
| Accruals | **6,270** | **6,262** | 108 | 108 |
| Corporation Tax | **377** | **377** | 370 | 370 |
| | **6,647** | **6,639** | 478 | 478 |

### 13. Called-up share capital

| | **Group & Company** | | Group & Company | |
|---|---|---|---|---|
| | **Nominal No. '000** | **31 December 2010 £'000** | Nominal No. '000 | 31 December 2009 £'000 |
| Allotted, called-up and fully paid: | | | | |
| Ordinary shares at 1 January and 31 December 2010 | **30,177** | **7,544** | 30,177 | 7,544 |

The capital of the Company is managed in accordance with its investment policy and objectives which are detailed in the business review on page 6.

The Company did not repurchase any ordinary shares in the year to 31 December 2010 (2009: nil). At 22 February 2011 no ordinary shares have been repurchased since 31 December 2010. The Company does not hold any shares in treasury.

### 14. Reserves

| Group | Share Capital £'000 | Share premium account £'000 | Capital redemption reserve* £'000 | Capital reserve - realised* £'000 | Capital reserve - unrealised* £'000 | Revenue account £'000 | Total retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2009 | 7,544 | 47,600 | 382 | 102,651 | (41,006) | 5,685 | 67,330 | 122,856 |
| Net revenue for the year | – | – | – | – | – | 1,125 | 1,125 | 1,125 |
| Transfer on disposal of investments | – | – | – | (7,439) | 7,439 | – | – | – |
| Net gain/(loss) on realisation of investments | – | – | – | 1,785 | – | – | 1,785 | 1,785 |
| Revaluation movements | – | – | – | – | 25,458 | – | 25,458 | 25,458 |
| Management fees charged to capital | – | – | – | (794) | – | – | (794) | (794) |
| Finance costs charged to capital | – | – | – | (66) | – | – | (66) | (66) |
| Dividends paid | – | – | – | – | – | (604) | (604) | (604) |
| Tax effect of capital items | – | – | – | 241 | – | – | 241 | 241 |
| Other movements | – | – | – | 82 | – | – | 82 | 82 |
| At 31 December 2010 | 7,544 | 47,600 | 382 | 96,460 | (8,109) | 6,206 | 94,557 | 150,083 |

| Company | Share Capital £'000 | Share premium account £'000 | Capital redemption reserve* £'000 | Capital reserve - realised* £'000 | Capital reserve - unrealised* £'000 | Revenue account £'000 | Total retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2009 | 7,544 | 47,600 | 382 | 102,886 | (41,450) | 5,894 | 67,330 | 122,856 |
| Net revenue for the year | – | – | – | – | – | 1,246 | 1,246 | 1,246 |
| Transfer on disposal of investments | – | – | – | (7,491) | 7,491 | – | – | – |
| Net gain/(loss) on realisation of investments | – | – | – | 1,776 | – | – | 1,776 | 1,776 |
| Revaluation movements | – | – | – | – | 25,074 | – | 25,074 | 25,074 |
| Management fees charged to capital | – | – | – | (522) | – | – | (522) | (522) |
| Finance costs charged to capital | – | – | – | (66) | – | – | (66) | (66) |
| Dividends paid | – | – | – | – | – | (604) | (604) | (604) |
| Tax effect of capital items | – | – | – | 241 | – | – | 241 | 241 |
| Other movements | – | – | – | 82 | – | – | 82 | 82 |
| At 31 December 2010 | 7,544 | 47,600 | 382 | 96,906 | (8,885) | 6,536 | 94,557 | 150,083 |

* – these reserves are non-distributable

### 15. Net asset value per share

The net asset value per share is calculated on shareholders' funds of £150,082,771 (2009: £122,855,746) and on 30,177,380 ordinary shares in issue at the year end (2009: 30,177,380).

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

| | Group 2010 £'000 | Company 2010 £'000 | Group 2009 £'000 | Company 2009 £'000 |
|---|---|---|---|---|
| Profit / (loss) before tax | **27,938** | **27,938** | (705) | (733) |
| (Gain)/losses on investments | **(27,325)** | **(26,932)** | 777 | 1,221 |
| Interest paid | **88** | **88** | 214 | 214 |
| (Increase)/decrease in debtors | **230** | **1,094** | (129) | (41) |
| Increase/(decrease) in creditors | **(19)** | **(27)** | (15) | (15) |
| Net cash inflow from operating activities | **912** | **2,161** | 142 | 646 |

### 17. Capital commitments

There were outstanding capital commitments of £82.6m (2009: £106.7m) in respect of investments at the end of the year.

### 18. Contingent liabilities

There were no contingent liabilities at the year end (2009 – £Nil).

### 19. Contingent assets

Discussions are ongoing regarding the recovery of VAT suffered on management fees prior to 2001 and payment of interest on a compound basis. The amount and timing of any recovery remains uncertain and accordingly no amount has been provided for in the financial statements.

### 20. Financial instruments and associated risks

The Company's financial instruments comprise ordinary shares, fixed and floating interest rate investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in unquoted companies both directly and through specialist vehicles. Investments are valued at fair value. For quoted stocks this is at bid price unless this is not considered to be an accurate representation of fair value. In respect of unquoted investments, these are fair valued by the Directors using rules consistent with International Private Equity and Venture Capital Valuation Guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet.

The Company's investing activities expose it to types of risk that are associated with the financial instruments and the market in which it invests. The most important types of financial risk to which the Company is exposed are market risk, interest rate risk, credit risk, liquidity risk and currency risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below.

Market risk – 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. The portfolio is continually monitored to ensure an appropriate balance of risk and reward in order to achieve the Company's objective. Some of the risk can be mitigated by diversifying the portfolio across business sectors, asset classes and regions. Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments on pages 10 to 14. The Company's overall market positions are monitored by the Manager on an ongoing basis and by the Board quarterly.

17.3% (2009: 21.1%) of the Company's net assets are in quoted European private equity stocks. A 5% increase in stock prices as at 31 December 2010 would have increased the net assets of the Company by £1.3m (2009: £1.3m); an equal change in the opposite direction would have decreased the net assets of the Company by the same amount.

67.6% (2009: 35.1%) of the Company's net assets are in unquoted companies held at fair value. Valuation methodology includes the application of a price/earnings ratio derived from listed companies or sectors with similar characteristics. Therefore the value of the unquoted element of the portfolio is also affected by price movements on the listed exchanges. A 5% increase in the valuations of unquoted investments at 31 December 2010 would have increased the net assets of the Company by £5.1m (2009: £2.2m).

Interest rate risk – some of the Company's financial assets are interest bearing, at both fixed and variable rates. As a result the Company is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. The table below analyses the Company's financial assets and details the weighted average interest rate and life of fixed rate lending.

#### Financial Assets of the Company

| 31 December 2010<br>Currency | Fixed rate £'000 | Floating rate £'000 | Nil rate £'000 | Total £'000 |
|---|---|---|---|---|
| Sterling | 73,475 | 29,061 | 15,449 | 117,985 |
| Euro | 8,156 | – | 30,348 | 38,504 |
| Total | 81,631 | 29,061 | 45,797 | 156,489 |

| 31 December 2009<br>Currency | Fixed rate £'000 | Floating rate £'000 | Nil rate £'000 | Total £'000 |
|---|---|---|---|---|
| Sterling | 32,715 | 53,716 | 3,725 | 90,156 |
| Euro | 1,689 | – | 31,018 | 32,707 |
| Total | 34,404 | 53,716 | 34,743 | 122,863 |

The fixed rate assets comprise fixed rate lendings to investee companies. Fixed rate lendings have a weighted average interest rate of 9% per annum (2009: 9%) and a weighted average life to maturity of 4.6 years (2009: 4.3 years). The floating rate assets consist of cash and "AAA" rated cash OEIC's. The nil interest rate bearing assets represent the equity content of the investment portfolio. Interest rate risk is managed on an ongoing basis by the Manager and on a quarterly basis by the Board.

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 25 basis points in interest rates as at the reporting date would not have had a significant effect on the Group's net assets or total return for the period.

Credit risk – credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The portfolio consists of the following financial instruments:

| | **2010 £'000** | 2009 £'000 |
|---|---|---|
| Unquoted investments | **101,454** | 43,186 |
| Quoted investments | **25,974** | 25,961 |
| AAA rated cash OEICs | **24,884** | 49,096 |
| Cash deposits | **4,177** | 4,620 |
| Total | **156,489** | 122,863 |

Investment in unquoted companies either directly, via Dunedin managed funds or via third party managed funds (both limited partnership funds and quoted stocks) is by its nature subject to potential credit losses. The Company's exposure to any one entity is carefully monitored. The Company complies with the Section 1158 of the Corporation Tax Act 2010 requirement for investment trusts not to invest more than 15% of the portfolio in the securities of any one company at the time of initial or subsequent investment. The unquoted investment portfolio is further diversified by asset class, sector and region. Liquid assets (cash deposits and AAA rated cash OEIC's) are divided between a number of different financial institutions, each of whose credit rating is assessed. Credit risk is monitored by the Manager on an ongoing basis and on a quarterly basis by the Board.

Liquidity risk – the Company has significant investments in unquoted companies which are inherently illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these companies at an amount close to its fair value in order to meet its liquidity requirements. The Company manages its liquid investments to ensure sufficient cash is available to meet contractual commitments and also seeks to have cash or readily convertible investments available to meet other short term financial needs. Liquidity risk is monitored by the Manager on an ongoing basis and on a quarterly basis by the Board.

Currency risk – the Company is exposed to currency risk as a result of investing in companies and funds denominated in euros. The sterling value of these investments can be influenced by movement's in foreign currency exchange rates. Currency risk is monitored by the Manager on an ongoing basis and on a quarterly basis by the Board.

The risks faced by the Group and the Company are not considered to be materially different.

**21. Subsidiary undertakings**

Dunedin Enterprise Limited was established during the year ended 31 December 2010 and has been consolidated in these financial statements. During the year the Company subscribed for £10.0m of capital in Dunedin Enterprise Limited. The consideration for this capital was loan notes in Practice Plan Holdings Limited of the same value.

| | |
|---|---|
| Name of Subsidiary | Dunedin Enterprise Limited |
| % of Equity invested | 100% |
| Type of entity | Limited Company |
| Activity | Private equity investment |

Other subsidiaries are Dunedin Fund of Funds L.P. and Dunedin Co-Investment L.P.

| | |
|---|---|
| Name of Subsidiary | Dunedin Fund of Funds L.P. |
| % of Equity invested | 100% |
| Type of entity | Limited Partnership |
| Activity | Private equity investment |

| | |
|---|---|
| Name of Subsidiary | Dunedin Co-Investment Fund L.P. |
| % of Equity invested | 99% |
| Type of entity | Limited Partnership |
| Activity | Private equity investment |

| | Dunedin Fund of Funds L.P. £'000 | Dunedin Enterprise Limited £'000 | Total £'000 |
|---|---|---|---|
| Valuation at 31 December 2009 | 4,979 | – | 4,979 |
| Net capital contributions | 7,712 | 10,025 | 17,737 |
| Valuation movements and management fees | 86 | – | 86 |
| Valuation at 31 December 2010 | 12,777 | 10,025 | 22,802 |

**22. Related party transactions**

The Company has investments in Dunedin Buyout Fund LP, Dunedin Buyout Fund II LP and Equity Harvest Fund LP. Each of these limited partnerships are managed by Dunedin. The Company has borne a management fee of £1.6m (2009: £1.6m) in respect of these limited partnerships. The total investment management fee payable by the Company to the Manager is therefore £2.7m (2009: £2.6m).

In the year ended 31 December 2010 Dunedin Enterprise established Dunedin Enterprise Limited. Dunedin Fund of Funds LP and Dunedin Co-Investment Fund LP were established in 2008.

Simon Miller is a director of the Company's investment manager. In the year to 31 December 2010 fees totalling £22,000 were paid to the Manager for the services of Simon Miller acting as a Director of the Company.

A Manager's Incentive Scheme ("the Scheme") was introduced from 1 May 1999. Under the terms of the Scheme qualifying directors and investment executives of Dunedin are entitled to purchase 7.5% of the equity shares (and, occasionally, other financial instruments) in each of the directly held investments subscribed for by the Company. This scheme has now been replaced by the arrangements noted below.

Since the Company began investing in Dunedin Buyout Funds ("the Funds") executives of the Managers have been entitled to participate in a carried interest scheme via the Funds. Performance conditions are applied whereby any gains achieved through the carried interest scheme associated with the Funds are conditional upon a certain minimum return having been generated for the limited partner investors. Additionally, within Dunedin Buyout Fund II LP the economic interest of the Manager is aligned with that of the limited partner investors by co-investing in this fund.

Simon Miller has an interest in each of the incentive schemes detailed above. Brian Finlayson has an interest in the Manager's Incentive Scheme.

# Management Fees

The terms of the management fees approved by shareholders in May 2008 are:-

| Vehicle | Fee |
|---|---|
| Fund of Funds Limited Partnership | 1.5 per cent on the value of investments plus 0.5 per cent on undrawn commitments to third party funds |
| Co-investment Limited Partnership | 1.5 per cent on the value of investments |
| Direct investments in individual companies | 1.5 per cent on the value of investments |
| Dunedin Managed Funds | Same fees as paid by third party investors in such Funds |
| Third party managed funds | 1.5 per cent on value of investments |
| Listed private equity funds | 1.5 per cent on the value of investments |
| Cash | 0.5 per cent on cash balances not committed to funds through the Fund of Funds Limited Partnership |

The notice period on the contract is 18 months.

# Notice of Annual General Meeting

Notice is hereby given that the thirty seventh Annual General Meeting of the shareholders of Dunedin Enterprise Investment Trust PLC will be held at The Balmoral Hotel, 1 Princes Street, Edinburgh, EH2 2EQ on Monday, 16 May 2011 at 11.00am for the following purposes:

To consider and, if thought fit, pass the following resolutions. Resolutions 1 to 8 will be proposed as ordinary resolutions and resolutions 9 to 11 will be proposed as special resolutions.

**Ordinary Business**

1. To receive and adopt the report of the Directors and auditors and the audited accounts for the year ended 31 December 2010.

2. To declare a dividend for the year ended 31 December 2010.

3. To consider, and if thought fit, to approve the Directors' Remuneration Report for the year ended 31 December 2010.

4. To re-elect Edward Dawnay as a Director.

5. To re-elect David Gamble as a Director

6. To re-elect Liz Airey as a Director.

7. To re-appoint KPMG Audit Plc as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company, and to authorise the Directors to fix the remuneration of the auditors.

8. 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 551 of the Companies Act 2006 ("the Act") to allot equity securities (as defined in Section 560 of the Act) up to a maximum nominal amount of £2,514,781 (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 on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution 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 equity securities to be allotted after the expiry of such authority and the Directors may allot equity 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 570 of the Companies Act 2006 (the "Act"), where they are generally authorised pursuant to the authority conferred upon them to allot equity securities (as defined in Section 560 of the Act) by resolution 8, the Directors be and they are hereby empowered, pursuant to Section 570 of the Act, to allot equity securities for cash as if Section 561 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 £377,217 (representing 5% of the Company's issued share capital at the date of the notice of this Annual General Meeting);

   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.

**Special Business**

10. That, in substitution for any existing authority, the Company be and it is hereby authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) 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 4,526,606;

   (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 not more than the higher of an amount equal to 105 per cent of the average of the middle market quotations for an ordinary 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 and the amount stipulated by Article 5(1) of the regulation entitled the 'Buy-Back and Stabilisation Regulation';

   (iv) the authority hereby conferred shall expire at 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; 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.

## Notice of Annual General Meeting continued

11. That a general meeting other than an annual general meeting may be called at not less than 14 clear days notice.

By Order of the Board
**Dunedin Capital Partners Limited**
Secretary
4 April 2011

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. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

4. Proxy forms must be lodged not less than 48 hours before the meeting with the Company's registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. 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 regulation 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 6.00pm on 12 May 2011. 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.

7. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

8. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 3 and 4 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

9. As at 1 April 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 30,177,380 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 1 April 2011 are 30,177,380.

10. Pursuant to section 319A of the Companies Act 2006, the Company must provide an answer to any question which is put by a member attending the AGM relating to the business being considered, except if a response would not be in the interest of the Company or for the good order of the meeting or if to do so would involve the disclosure of confidential information. The Company may however elect to provide an answer to a question, within a reasonable period of days after the conclusion of the AGM.

11. In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.dunedinenterprise.com.

12. Shareholders may require the Company to place on its website a statement, made available also to the Company's auditors, setting out any matter relating to the audit of the Company's accounts, including the Auditor's Report and the conduct of the audit, which shareholders intend to raise at the Annual General Meeting. The Company becomes required to place such a statement on the website once a) members with at least 5% of the total voting rights of the Company or b) at least 100 members who are entitled to vote and on whose shares an average sum per member of at least £100 has been paid have submitted such a request to the Company. Members seeking to do this should write to the Company providing their full name and address.

13. A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the AGM. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations

## Notice of Annual General Meeting continued

2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

14. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

15. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.00am on 12 May 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

16. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK and Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST manual can be viewed at www.euroclear.com/CREST.

17. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

# Financial Calendar

Announcements, dividend payments and the issue of the annual and interim reports for the year ended 31 December 2010 and half year end 30 June 2011 can be expected in the months shown below:

**February**
Preliminary figures and final dividend for the year announced.

**April**
Report and accounts published.

**May**
Annual General Meeting held and payment of final dividend.

**August**
Interim report for half year to 30 June published.

**Directors**
Edward Dawnay, Chairman
Liz Airey
Brian Finlayson
David Gamble
Federico Marescotti
Simon Miller

**Website**
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Email info@dunedinenterprise.com

**Manager, Secretary & Registered Office**
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Fax 0131 718 2300
Email info@dunedin.com
Website www.dunedin.com
Registered No. 52844 Scotland

**Registrar**
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Tel 0871 384 2440

**Bankers**
Bank of Scotland

**Solicitors**
Dundas & Wilson CS LLP

**Auditors**
KPMG Audit Plc

Dunedin Enterprise Investment Trust PLC
10 George Street, Edinburgh EH2 2DW

www.dunedinenterprise.com