SHIRES INCOME plc
(Formerly Shires Investment p.l.c.)

COMPANY NUMBER 386561

UNAUDITED INTERIM ACCOUNTS FOR THE PERIOD FROM
1 APRIL 1996 TO 31 JANUARY 1997

PREPARED UNDER SECTION
272 COMPANIES ACT 1985

SHIRES INCOME plc

STATEMENT OF TOTAL RETURN
(INCORPORATING THE REVENUE ACCOUNT*)
FOR THE PERIOD
1 APRIL 1996 TO 31 JANUARY 1997

	Notes	Revenue	Capital	Total
		£	£	£
Gains on investments	8	-	11,552,322	11,552,322
Income	2	5,469,247	-	5,469,247
Associated undertaking	10	260,313	1,351,944	1,612,257
Investment management fee	3	176,112	176,112	352,224
Other administrative expenses	4	190,397	-	190,397
NET RETURN BEFORE FINANCE COSTS AND TAXATION		5,363,051	12,728,154	18,091,205
Finance costs of borrowings	5	1,226,045	767,662	1,993,707
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		4,137,006	11,960,492	16,097,498
Taxation	6	911,751	(103,709)	808,042
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE PERIOD		3,225,255	12,064,201	15,289,456
Preference dividend		875	-	875
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS		3,224,380	12,064,201	15,288,581
Dividends on equity shares	7	2,315,155	-	2,315,155
TRANSFER TO RESERVES	19	£909,225	£12,064,201	£12,973,426

* The revenue column of this statement is the revenue account of the Company.
The accompanying notes are an integral part of this statement.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the period.

SHIRES INCOME plc

BALANCE SHEET AS AT 31 JANUARY 1997

	Notes	£
FIXED ASSETS		
Investments	8	116,212,479
Subsidiary undertakings	9	646,322
Associated undertaking	10	10,361,408
		127,220,209
CURRENT ASSETS		
Debtors	11	2,468,849
CREDITORS		
Amounts falling due within one year	12	(11,410,379)
NET CURRENT LIABILITIES		(8,941,530)
TOTAL ASSETS LESS CURRENT LIABILITIES		118,278,679
CREDITORS		
Amounts falling due after more than one year	13	23,942,034
		£94,336,645
CAPITAL AND RESERVES		
Called up share capital	14	13,996,719
Share premium account	15	17,874,293
Other capital reserves	16	
Realised capital reserve		32,358,081
Unrealised capital reserve		25,206,981
Revenue reserve	17	4,900,571
EQUITY SHAREHOLDERS' FUNDS	19	£94,336,645

Approved by the Board of Directors on 21 March 1997 and signed on its behalf.

Chairman

The accompanying notes are an integral part of this balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice (SORP) issued by the Association of Investment Trust Companies in December 1995 except as disclosed in note (i) below. The principal accounting policies are as follows:

(a) Accounting convention

The financial statements are prepared under the historical cost convention as modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will continue to be granted.

(b) Associated undertakings

An associated undertaking is one in which the Company holds an interest of greater than 20% of the voting capital and which is held for the long-term for the purpose of securing a contribution to the Company's activities.

Investments in associated undertakings are shown in the accounts at net asset value. The revenue account includes dividend income from an associated undertaking accounted for when the investment is first quoted ex-dividend.

(c) Investments

Listed investments are valued at middle market prices ruling on the balance sheet date.

Unlisted investments are shown at the Directors' valuation on the basis of the latest available information.

(d) Gains and losses on investment transactions

Gains and losses arising on sales of investments are taken to realised capital reserve. Unrealised appreciation or depreciation of investments held is taken to unrealised capital reserve.

(e) Income and expenditure

Dividends, which include the appropriate tax credits, and foreign income dividends are credited to revenue on the date when the investment is first quoted ex-dividend.

Interest from deposits, interest payable and expenses of management are dealt with on an accruals basis.

Traded option contracts are restricted to writing out-of-the-money options with a view to generating income. These premiums are substantially revenue in nature and where appropriate are recognised as income whenever the options expire or are exercised.

Expenses of management are charged wholly to revenue with the exception of the investment management fee, for which a new accounting policy has been in operation since 1 April 1996 (see below). Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the sale proceeds of the investment.

The following are the changes to accounting policies which were made on 1 April 1996 as a result of the SORP:

(i) 50% of the finance costs of bank loans and overdrafts and the 11% Convertible Unsecured Loan Stock and 50% of the investment management fee are charged to revenue with the remaining 50% of these items being charged to capital, net of any tax relief. Previously the whole of these items was charged to revenue.

(ii) Interest from debt securities is included on an accruals basis. Previously such interest was included on an ex-dividend basis.

(iii) Underwriting commission is taken to revenue, unless any shares underwritten are required to be taken up, in which case the commission received is deducted from the cost of the investment. Previously all underwriting commission was taken to revenue.

(f) Taxation

The charge for taxation is based on the revenue for the period and takes into account taxation deferred due to timing differences in the treatment of certain items for taxation and accounting purposes. Provision for deferred taxation is made if there is reasonable evidence that such deferred taxation will become payable in the foreseeable future.

(g) Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Foreign income is translated at the rate ruling at the date of receipt.

Realised and unrealised differences on exchange or translation are taken to realised and unrealised capital reserves respectively.

(h) 5% Index-Linked Debenture Stock 2008/2010

The index-linked adjustment to the redemption value of the 5% Index-Linked Debenture Stock is accrued annually and charged to capital reserve. The discount on issue is amortised annually to share premium account over the life of the Stock.

NOTES TO THE FINANCIAL STATEMENTS

(i) As stated above, the Company has not adopted in full the recommendations of the SORP. The accounting policies which differ from the SORP are as follows:

(i) The SORP recommends that income from preference shares should be calculated on an effective yield basis. The Company considers that the effective yield basis is not appropriate and is therefore continuing to credit preference dividends to revenue on an ex-dividend basis.

(ii) The SORP recommends that where finance costs or expenses are allocated between capital and revenue, any tax relief obtained in respect of those finance costs or expenses should be allocated between capital and revenue in the same proportion as the allocation of the finance costs or expenses, using the effective rate of tax for the accounting period. The Company considers that the SORP's recommendation does not properly take into account that the income against which finance costs and expenses are relieved for tax purposes is all taxed income credited to revenue account. The Company's policy is therefore to credit to revenue in the first instance the tax relief obtained in respect of costs allocated between capital and revenue, to the extent of tax relief on the amount charged to revenue, and to credit the balance, if any, to capital. If the SORP's recommendation had been followed, the tax charge in revenue account would have been £85,216 lower and realised capital reserve would have been charged with a further £85,216

2. INCOME

	£
Income from listed investments	
Franked investment income	4,602,174
UK unfranked investment income	478,890
Foreign income dividends	52,375
	5,133,439
Income from unlisted investments	
Franked investment income	4,089
Other income	
Interest receivable	9,885
Traded option premiums	282,046
Underwriting commission	39,788
	331,719
Total income	£5,469,247
Total income comprises:	
Dividends	5,137,528
Interest	9,885
Other	321,834
	£5,469,247

All dividend income was received from UK companies.

SHIRES INCOME plc

NOTES TO THE FINANCIAL STATEMENTS

3. SECRETARIAL AND MANAGEMENT FEE

Glasgow Investment Managers Limited (GIM), a subsidiary undertaking of the Company, provides management and secretarial services under a contract terminable by one year's notice on either side. The fee is based on shareholders' funds plus long term indebtedness. The annual fee rate since 1 April 1993 has been fixed at 0.45% for funds up to £100 million and 0.40% for funds over £100 million. The fee is subject to a proportionate reduction to reflect the Company's investment in Shires Smaller Companies plc which is also managed by GIM.

The fee for the period from 1 April 1996 to 31 January 1997 was £373,057. No VAT is payable on the fee as the Company and GIM are both members of the same VAT group registration. With effect from 1 April 1996 £25,000 of the annual total fee is in respect of secretarial services and is allocated to revenue. The remainder of the fee is allocated 50% to capital and 50% to revenue.

At 31 January 1997 the amount of such fees owed to GIM was £39,983.

4. OTHER ADMINISTRATIVE EXPENSES

	£
Directors' remuneration - fees as Directors	35,750
Auditors' remuneration	12,364
Fees payable to auditors in respect of other services	7,760
Other management expenses	134,523
	£190,397

5. FINANCE COSTS OF BORROWINGS

	Revenue £	Capital £	Total £
Bank loans and overdrafts repayable within five years	184,562	184,562	369,124
5% Index-Linked Debenture Stock 2008/2010 (see note 13)	878,134	422,230	1,300,364
11% Convertible Unsecured Loan Stock	160,870	160,870	321,740
Interest paid to subsidiary undertaking	2,479	-	2,479
	£1,226,045	£767,662	£1,993,707

6. TAXATION

	Revenue	Capital	Total
Tax on franked investment income	973,315	-	973,315
Adjustment in respect of previous year	(61,564)	(103,709)	(165,273)
	£911,751	£(103,709)	£808,042

7. DIVIDENDS ON EQUITY SHARES

	£
Ordinary shares	
First interim of 4.1p per share paid on 31 October 1996	1,143,631
Second interim of 4.2p per share paid on 31 January 1997	1,171,524
	£2,315,155

SHIRES INCOME plc

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENTS

	£
Listed on stock exchanges:	
In the United Kingdom	115,045,349
Overseas	32,771
	115,078,120
Unlisted	1,134,359
	£116,212,479

	Listed £	Unlisted £	Total £
Cost of investments at 31 March 1996	93,364,796	2,489,275	95,854,071
Unrealised appreciation at 31 March 1996 as originally reported	9,094,964	(980,059)	8,114,905
Value of investments at 31 March 1996 as originally reported	102,459,760	1,509,216	103,968,976
Prior year adjustment (see note 18)	(151,048)	-	(151,048)
Restated value of investments at 31 March 1996	102,308,712	1,509,216	103,817,928
Purchases	27,925,217	-	27,925,217
Sales - proceeds	(26,537,980)	(551,849)	(27,089,829)
- net (losses)/gains on sales	(592,069)	25,808	(566,261)
Increase in unrealised appreciation	11,974,240	151,184	12,125,424
Value of investments at 31 January 1997	£115,078,120	£1,134,359	£116,212,479
Cost of investments at 31 January 1997	94,159,964	1,963,234	96,123,198
Unrealised appreciation at 31 January 1997	20,918,156	(828,875)	20,089,281
Value of investments at 31 January 1997	£115,078,120	£1,134,359	£116,212,479

GAINS ON INVESTMENTS

	£
Net losses on sales of investments	(566,261)
Increase in unrealised appreciation of fixed assets investments	12,125,424
Increase in unrealised depreciation of traded options	(4,701)
Realised foreign exchange losses	(2,140)
	£11,552,322

9. SUBSIDIARY UNDERTAKINGS

Cost and Net Book Value at 31 March 1996 and 31 January 1997 £646,322

In the opinion of the Directors, the value of the subsidiary undertakings is not less than cost.

The principal trading subsidiary undertakings of the Company, both of which operate in the United Kingdom, are as follows:

Company	Country of Registration	Holding	Proportion attributable to Company	Nature of business
Wiston Investment Company Limited	England	Ordinary	100%	Investment dealing
Glasgow Investment Managers Limited	Scotland	Ordinary Redeemable Preference	* 84% 100%	Investment management

* This would fall to 73% on full exercise of options held by employees of Glasgow Investment Managers Limited.

10. ASSOCIATED UNDERTAKING

At 31 January 1997 the Company had a 26.9% interest in the ordinary shares of Shires Smaller Companies plc (SSC), an investment trust listed on the London Stock Exchange and registered in Scotland. At 31 January 1997 this investment had a market value of £7,622,755. SSC had 19,490,295 ordinary shares in issue at 31 January 1997.

Dividends receivable from SSC (including the related tax credit) for the period from 1 April 1996 to 31 January 1997 amounted to £260,313.

Particulars of the investment in SSC are as follows:

	£
Cost: At 31 March 1996 and 31 January 1997	5,239,007
Increase in net asset value	
At 31 March 1996	3,770,457
Increase during period	1,351,944
At 31 January 1997	5,122,401
Net asset value at 31 January 1997	£10,361,408

11. DEBTORS

Amounts falling due within one year:	£
Investment sales	87,180
Taxation recoverable	187,773
Accrued income	912,170
Due from subsidiary undertakings	1,277,502
Other debtors	4,224
	£2,468,849

12. CREDITORS

Amounts falling due within one year:	£
Bank loans and overdrafts	7,500,368
Investment purchases	3,113,577
Due to subsidiary undertakings	78,378
Other creditors	718,056
	£11,410,379

13. CREDITORS

Amounts falling due after more than one year:	£
11% Convertible Unsecured Loan Stock 2003/2004	3,509,874
5% Index-Linked Debenture Stock 2008/2010	20,432,160
	£23,942,034

11% Convertible Unsecured Loan Stock 2003/2004

The 11% Convertible Unsecured Loan Stock may be converted into ordinary shares, on the basis of one ordinary share for every £2 nominal of Loan Stock, during March in any of the years from 1988 to 2003 inclusive. On 1 April 1996 £526,916 of the Loan Stock was converted into 263,458 ordinary shares.

5% Index-Linked Debenture Stock 2008/2010

The £16,000,000 5% Index-Linked Debenture Stock 2008/2010 is unlisted and is secured by a first floating charge over the whole of the assets of the Company and its dealing subsidiary undertakings, Wiston Investment Company Limited and Topshire Limited.

Interest is paid on 6 March and 6 September each year at an annual rate of 5% as adjusted by the movement in the UK General Index of Retail Prices (RPI) over the period from July 1989 to the month eight months prior to the month in which interest is paid.

The capital amount to be repaid on 6 March in each of the years 2008 to 2010 will be one third of the nominal amount as adjusted by the movement in the RPI over the period from July 1989 to the month eight months prior to the month in which repayment is made.

The discount on issue is amortised annually to share premium account over the life of the Stock. The index-linked adjustment to the redemption value is accrued annually and charged to capital reserve.

The amount outstanding at 31 January 1997 comprises:

	£	£
Nominal amount		16,000,000
Discount on issue	(979,520)	
Amortisation of discount	357,240	
		(622,280)
Index-linked adjustment charged to capital reserve		5,054,440
		£20,432,160

The movement during the period was as follows:

Amount outstanding at 31 March 1996		20,009,930
Amortisation of discount (note 15)	43,040	
Change in index-linked adjustment (note 16)	379,190	
		422,230
Amount outstanding at 31 January 1997		£20,432,160

14. CALLED UP SHARE CAPITAL

AUTHORISED

	Number	£
Ordinary shares of 50p each	39,800,000	19,900,000
3.5% (formerly 5%) cumulative preference shares of £1 each	100,000	100,000
		£20,000,000

ALLOTTED, CALLED UP AND FULLY PAID

	Number	£
Ordinary shares of 50p each	27,893,437	13,946,719
3.5% (formerly 5%) cumulative preference shares of £1 each	50,000	50,000
		£13,996,719

During the period, new ordinary shares were issued as follows:

	Number of shares
In issue at 31 March 1996	27,629,979
On the conversion of £526,916 of Loan Stock	263,458
In issue at 31 January 1997	27,893,437

15. SHARE PREMIUM ACCOUNT

	£
At 31 March 1996	17,522,146
On the conversion of Loan Stock	395,187
Amortisation of discount on issue of Debenture Stock (note 13)	(43,040)
At 31 January 1997	£17,874,293

16. OTHER CAPITAL RESERVES

Realised capital reserve	£
At 31 March 1996 as originally reported	34,438,391
Prior year adjustments (see note 18)	(714,884)
At 31 March 1996 (restated)	33,723,507
Net losses on sales of investments during the period	(566,261)
Investment management fee	(176,112)
Exchange loss realised	(2,140)
Index-linked adjustment to redemption value of Debenture Stock (note 13)	(379,190)
Finance costs of borrowings charged to capital	
- on bank loans and overdrafts repayable within five years	(184,562)
- on 11% Convertible Unsecured Loan Stock	(160,870)
Tax relief for surplus management expenses	103,709
At 31 January 1997	£32,358,081

Unrealised capital reserve	£
At 31 March 1996 as originally reported	11,885,362
Prior year adjustment (see note 18)	(151,048)
At 31 March 1996 (restated)	11,734,314
Movements during the period:	
Fixed asset investments	12,125,424
Traded options	(4,701)
Increase in net asset value of associated undertaking	1,351,944
At 31 January 1997	£25,206,981

The capital reserves are not distributable.

17. REVENUE RESERVE

	£
At 31 March 1996 as originally reported	3,125,414
Prior year adjustments (see note 18)	865,932
At 31 March 1996 (restated)	3,991,346
Retained net revenue for the period	909,225
At 31 January 1997	£4,900,571

NOTES TO THE FINANCIAL STATEMENTS

18. PRIOR YEAR ADJUSTMENTS

The prior year adjustments shown in notes 8, 16 and 17 all relate to the changes in accounting policies contained in note 1(e). Details are as follows:

	Fixed Asset Investments £	Realised Capital Reserve £	Unrealised Capital Reserve £	Revenue Reserve £
Finance costs and investment management fee charged to capital	-	(627,438)	-	627,438
Interest from debt securities	(151,048)	(92,628)	(151,048)	243,676
Underwriting commission	-	5,182	-	(5,182)
	£(151,048)	£(714,884)	£(151,048)	£865,932

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Total revenue returns	3,224,380
Dividends	(2,315,155)
Transfer to distributable reserves	909,225
Total capital returns	12,064,201
Issue of ordinary shares on conversion of Loan Stock	526,916
Net addition to shareholders' funds	13,500,342
Shareholders' funds at 31 March 1996	80,836,303
Shareholders' funds at 31 January 1997	£94,336,645

20. COMMITMENTS AND CONTINGENCIES

At 31 January 1997	£
Outstanding underwriting commitments	973,452
Uncalled capital on investments	735,000