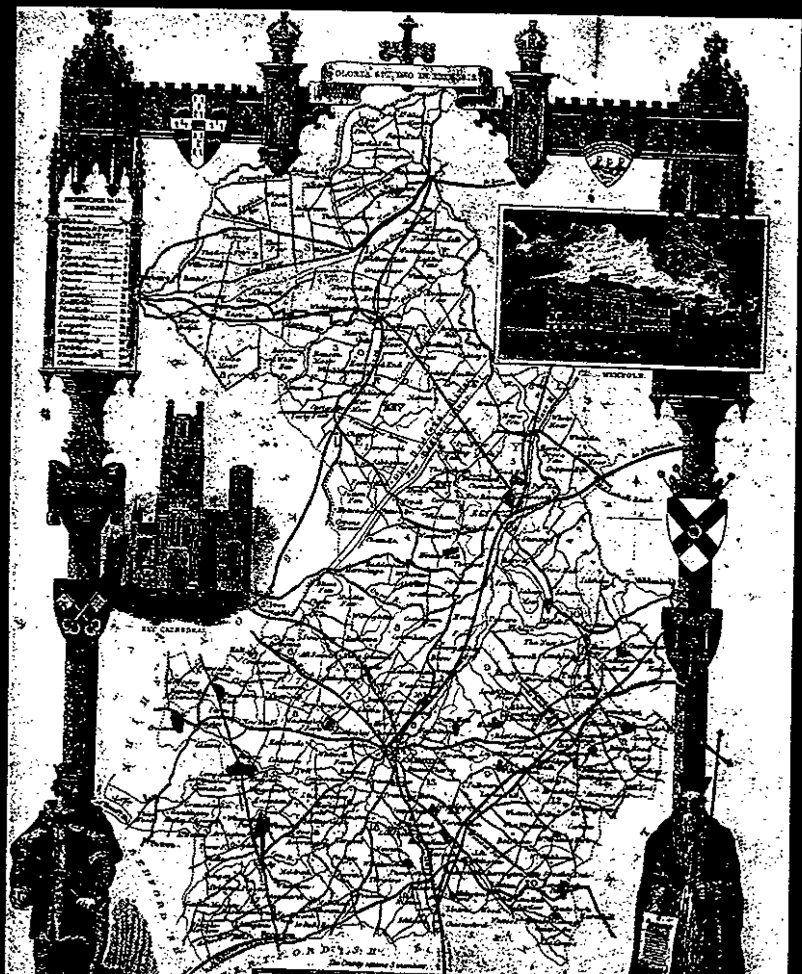
Shires Income plc



ANNUAL REPORT

COMPANY NUMBER 386561

Objective

To provide for shareholders a high level of income together with some growth of both income and capital from a portfolio substantially invested in UK equities.

Highlights

	As at 31 March 1997	As at 31 March 1996	% change
Net assets attributable to ordinary shareholders	**£90.66m**	£80.58m	+12.5
Fully diluted net asset value per ordinary share	**317.6p**	285.4p	+11.3
Ordinary share price	**293.5p**	247.5p	+18.6
Net dividends per ordinary share	**16.80p**	16.80p	—

Performance

Net asset value total return on a theoretical investment of £100 with gross income reinvested

	1 year £	3 years £	5 years £
Shires Income plc*	118.65	138.45	209.05
TOPSI Index†	119.84	149.45	231.67

	As at 31 March 1997	As at 31 March 1996
Gross dividend yield		
Shires Income plc‡	**7.2%**	8.5%
TOPSI Index†	**5.5%**	5.9%

* Source: Glasgow Investment Managers Limited.
† Source: Dresdner Kleinwort Benson.
‡ Based on share price and gross dividend at the financial year end.

Contents

Chairman's Statement

BACKGROUND

Economic activity in the UK expanded at an accelerating rate throughout 1996 and into 1997, stimulated by the relaxation of monetary policy which commenced in December 1995 and a public sector deficit higher than planned. After a period of uncertainty in the second quarter of 1996, equities appreciated steadily until March 1997, when a rise in US interest rates caused volatility in most world stockmarkets.

INVESTMENT RETURNS

The total return on fully diluted net assets over the year to 31 March 1997 was 18.7%. This was in line with the FTSE All-Share Index but a little behind the return of 19.8% on the TOPSI-100 Index of high-yielding UK ordinary shares. Over the same period the discount at which the Company's share price stood to underlying net asset value per share fell, from 13.3% to 7.6%. As a result the total return to shareholders, at 27.1%, comfortably exceeded the investment return on net assets.

EARNINGS AND DIVIDENDS

Earnings per share were below the level of last year, which are now shown adjusted for introduction of the Statement of Recommended Practice for Investment Trust Companies. Sharply higher income from Wiston Investment Company, the dealing subsidiary, and the nearly doubled external revenue of Glasgow Investment Managers were not enough to offset the introduction of lower yielding equities to the portfolio, fewer special dividends and less traded option writing.

A final dividend of 4.3p per ordinary share is recommended by the Board, to bring total dividends for the year to 16.8p per share, the same level as last year. This dividend is not fully covered by earnings, but there is a substantial balance of unrealised profit within the dealing subsidiary, which should make a significant contribution to income in the current year to March 1998.

LONG TERM STRATEGY

In this, my first annual report as Chairman of Shires Income, as well as reporting to you on the year under review, I wish to comment on the longer term strategy which the Board is pursuing. Ten years ago, in 1987—incidentally the year when Michael Hardie joined the Board and the Company first appointed Glasgow Investment Managers—ordinary shares represented 39.3% of net assets. Throughout the decade since then the challenge which the Company has faced has been to raise the portfolio's investment in equities, and thus its capacity to provide growth in both capital and income, while maintaining a high level of earnings for ordinary shareholders.

The reduction of the Company's revenue cost of capital, through the issue of the Index-Linked Debenture Stock in 1990, the introduction of an additional source of revenue in 1991, from writing traded options, and the maintenance since 1994 of an unchanged dividend, in a period when the yield on the Company's shares has comfortably exceeded the rates available from bank and building society deposits, have all contributed to raising the portfolio's exposure to equities. As a result, in the year to 31 March 1997 ordinary share investments exceeded shareholders' funds over the year for the first time, at an average of 102.0% of net assets.

PORTFOLIO PROFILE

The Board will continue to pursue the strategy of improving the growth characteristics of the portfolio without jeopardising the high level of distributions to shareholders. In this context a growing contribution from Glasgow Investment

Chairman's Statement

Managers over the next few years should permit further investment in the faster growing, but inevitably lower yielding, ordinary shares whose inclusion in the portfolio is already contributing towards our objective. UK equity exposure was raised to 84.8% of the portfolio at 31 March 1997 from 77.0% a year earlier.

GLASGOW INVESTMENT MANAGERS

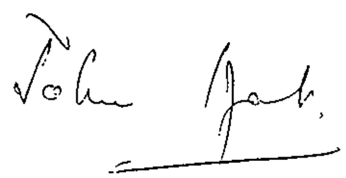
In December 1990 the Company acquired the controlling shareholding in Glasgow Investment Managers ("GIM"), the Managers and Secretaries to Shires Income. At that time the new subsidiary's funds under management amounted to just over £100 million. In the last few years a growing number of clients has been attracted by the quality of service GIM provides. As a result funds under management have grown to some £400 million at 31 March 1997 and external revenues have begun to make a significant contribution to the Company's income. I should like to congratulate the Managers on this performance.

OUTLOOK

Recent growth in the UK economy has been based substantially upon rising consumption expenditure while competitiveness and the demand for UK exports have been affected adversely by sterling appreciation. To address this imbalance in the economy and counter developing inflationary pressures, the new Labour government is expected to tighten fiscal policy so that the control of the economy is less dependent upon monetary policy. If the appropriate measures are announced in the forthcoming Budget the prospect that interest rates may not have to rise much further is likely to boost investor confidence.

BOARD

Michael Hardie, who was Chairman of the Company from 1987 until he stepped down in 1996, reached the age of seventy at the end of last year. In accordance with the Articles of Association he will retire from the Board after the Annual General Meeting on 27 June 1997. Many changes, to both the structure and the management of the Company, took place during Michael's chairmanship and he undoubtedly leaves Shires Income in a much stronger position than when he was first appointed to the Board. Those of us who have worked with Michael are aware of the meticulous way in which he handled every aspect of your Company's affairs. My fellow directors and I should like to thank him for his leadership and contribution to our deliberations and to wish him well in his retirement.



Chairman

Managers' Review

ECONOMIC AND MARKET BACKGROUND

Over the year to March 1997 UK equities produced a strong performance, the FTSE All-Share Index registering a total return of 18.7%. Fixed interest securities lagged the return on equities, the FTSE Actuaries Government Securities Index of over fifteen year maturities returning 14.7%.

The economic environment was supportive of financial markets. Inflation remained on a downward path, permitting interest rates to remain at a low level for this stage of the economic cycle. At the end of October the Chancellor finally acceded to the wishes of the Bank of England and raised base rates by 25 basis points to 6%, the first rise in two years. With a General Election pending political necessity dictated that there would be no further rises. Corporate earnings continued to grow steadily. Late in the period sterling appreciated sharply and concern developed that the profitability of UK manufacturing would be affected adversely. There was little supply of new equities, with few rights issues and several equity buy-backs reflecting the healthy cash position of the corporate sector.

The main preoccupation of UK investors was forecasting the actions of the Federal Reserve Board chairman, Alan Greenspan. Although short-term interest rates were raised by 25 basis points during the period some commentators argued for tighter monetary policy to restrain US economic activity and thus inflation. The other principal issue was the UK political scene. Opinion polls strongly favoured the Labour Party while improvement in the "feel-good" factor did not benefit the government, which continued to squabble openly over Europe.

Since the Company's year end much of the political uncertainty has been resolved with Mr Blair becoming Prime Minister backed by a substantial majority in the House of Commons. The new Chancellor, Gordon Brown, took little time to indicate that he would pursue a tough stance on inflation. The setting of interest rates was transferred to a Bank of England committee, with the intention of reducing political interference in monetary policy.

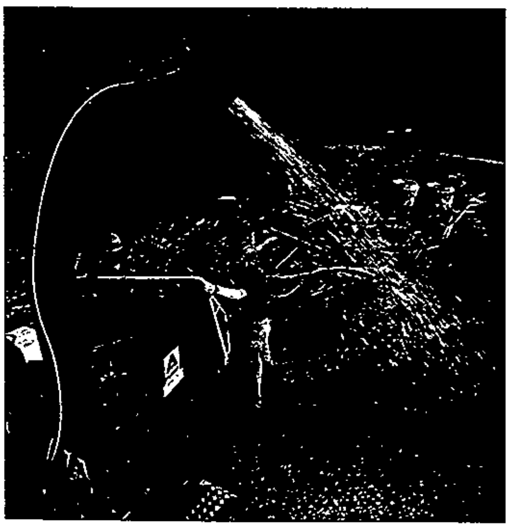
UK base rates were raised by 25 basis points to 6.25%. If further rises are to be avoided Mr Brown will need to tighten fiscal policy as there are signs that the economy is overheating. Appreciation of sterling is a serious problem for the competitive position of UK exporters who are also having to contend with rising productivity in Europe. The service sector of the economy is growing at a rate well above trend and some of the windfall payments from building society demutualisation may find their way into consumption. After eighteen years of Conservative government the Labour Party has brought the feeling of a new beginning to the country. Financial markets eagerly await details of the extent to which the corporate sector may be required to fund the new government's policies.

ORDINARY SHARES

As the outlook for the UK equity market was considered attractive, a geared investment stance was maintained throughout the period and exposure to UK equities was raised to 110.1% of fully diluted net assets at 31 March 1997, which compared with 102.6% last year. Emphasis was placed on improving the growth characteristics of the ordinary share portfolio and the new purchases detailed below reflect this policy.

Ashtead

Ashtead is a fast growing plant hire company which continues to take market share from rival hirers while at the same time opening new branches. The developing signs of life in the UK housing market should provide a useful boost for the hirers of construction equipment. Ashtead has entered the USA successfully, and this venture should offer additional scope for growth given the fragmentation of that market.



A woodchipper, on hire from A-Plant, a subsidiary of Ashtead.

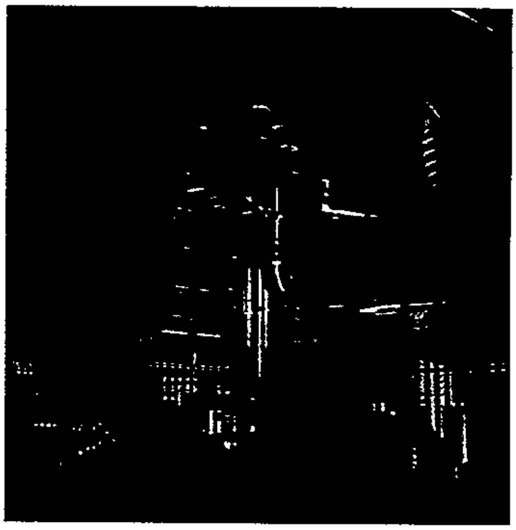
Managers' Review

Compass
Compass is the world's largest contract caterer with strong positions in its three key markets of Continental Europe, North America and the UK. The trend to contracting out catering is accelerating, as it provides large cost savings and leaves a company free to concentrate on its core activities. Compass is well positioned to benefit from growth in this market and, due to the growing scale of its operations, from rising margins.

Airtours
Airtours is a vertically integrated holiday company with leading positions in the UK and Scandinavian travel agency markets and significant exposure to hotel and cruise shipping operations. Expansion into the US tour operating market, timeshare development and a third cruise ship, as well as a richer sales mix to higher margin long-haul and all-inclusive holidays, should result in growth over the next few years.

Sun Life & Provincial Holdings
The group consists primarily of three insurance companies, Sun Life, UAP Provincial and New Ireland. Sun Life is a large UK-based life and pensions company which sells mainly through independent financial advisers and has established a strong position in this fast growing market. UAP is a medium sized UK general insurer specialising in small commercial and personal classes. New Ireland is a life and general insurer in Ireland.

Propellers for the Saab 2000 Aircraft are manufactured by Dowty Aerospace, part of the TI Group.



A Scottish Power substation in Edinburgh.

The following were major disposals.

B.A.T Industries
B.A.T is a leading international cigarette manufacturer which has over 10% of the global market and owns established brands including Benson & Hedges and Players. The financial services division includes Farmers Group, the fourth largest US property insurer, and Eagle Star. a major UK composite insurance group. Uncertainty about US tobacco litigation was expected to persist.

Harrison & Crosfield
The company is a diversified industrial group involved in plantations, chemicals, building materials and food and agriculture. With the plantations business making a loss, the food and agriculture business suffering from pressure on margins in pig markets and the chemical and industrial businesses expecting higher landfill costs, the share price was unlikely to progress.

CONVERTIBLES

Convertibles, as measured by the COSI 80 Index*, produced a total return of 18.9% over the period. There was little activity within the convertible portfolio which represented 10.3% of net assets at 31 March 1997 compared with 14.2% last year.

*Dresdner Kleinwort Benson Top 80 Convertible Index.

FIXED INTEREST

Fixed interest securities performed poorly relative to equities and exposure was reduced to finance investment in equities. The prospects for fixed interest markets under the new government are improving and should support the current rating of equities.

Largest 30 Holdings at 31 March 1997

	Market Value £000	*% of Portfolio*
ASSOCIATED UNDERTAKING		
Shires Smaller Companies (see note)	10,389	8.4
OTHER ORDINARY		
Compass	4,504	3.7
British Telecommunications	4,455	3.6
Zeneca	4,406	3.6
BG	3,309	2.7
Ocean Group	3,150	2.6
United News & Media	3,010	2.5
Sun Life & Provincial	2,950	2.4
Legal & General	2,925	2.4
Provident Financial	2,833	2.3
TI Group	2,784	2.3
General Electric	2,708	2.2
Airtours	2,516	2.1
BTR	2,460	2.0
Abbey National	2,235	1.8
Royal & Sun Alliance	2,220	1.8
Lloyds TSB Group	2,182	1.8
Safeway	2,139	1.8
Scottish Power	2,123	1.7
Granada	2,101	1.7
Burton	1,980	1.6
Ashtead	1,925	1.6
Morgan Crucible	1,920	1.6
Imperial Chemical Industries	1,727	1.4
EMI	1,672	1.4
Tomkins	1,635	1.3
Shell Transport & Trading	1,628	1.3
Unigate	1,582	1.3
CONVERTIBLES		
British Aerospace 7.75p Pref	3,360	2.8
BBA Group 6.75% Pref	1,640	1.4
	84,468	69.1

Note: All investments are stated at market value with the exception of the investment in Shires Smaller Companies plc which is stated at net asset value. In addition a subsidiary of the Company holds 1,047,801 warrants to subscribe for ordinary shares in Shires Smaller Companies.

Distribution of Assets

	Valuation at 31 March 1996 (as restated per note 1(h))		Movements during the year			Valuation at 31 March 1997	
			Purchases	Sales	Appreciation		
	£m	%	£m	£m	£m	£m	%
Associated undertaking:							
Shires Smaller Companies	9.0	*10.6*	—	—	1.4	**10.4**	*11.1*
Other listed investments:							
Ordinary shares	77.9	*92.0*	33.2	(27.4)	9.6	**93.3**	*99.0*
Convertibles	12.0	*14.2*	1.3	(2.6)	(1.0)	**9.7**	*10.3*
British government securities	5.4	*6.4*	—	(5.8)	0.4	—	—
Other fixed interest	7.0	*8.2*	0.5	—	0.4	**7.9**	*8.4*
	111.3	*131.4*	35.0	(35.8)	10.8	**121.3**	*128.8*
Unlisted investments	1.5	*1.8*	—	(0.6)	0.1	**1.0**	*1.0*
	112.8	*133.2*	35.0	(36.4)	10.9	**122.3**	*129.8*
Tangible fixed assets	0.1	*0.1*				**0.3**	*0.3*
Net current liabilities	(8.2)	*(9.7)*				**(7.8)**	*(8.3)*
TOTAL ASSETS (less current liabilities)	104.7	*123.6*				**114.8**	*121.8*
Index-Linked Debenture Stock	(20.0)	*(23.6)*				**(20.5)**	*(21.7)*
Minority equity interests	—	—				**(0.1)**	*(0.1)*
NET ASSETS	84.7	*100.0*				**94.2**	*100.0*
Representing:							
Share capital and reserves	80.6					**90.7**	
Convertible Unsecured Loan Stock	4.1					**3.5**	
	84.7					**94.2**	

Analysis of Portfolio

	United Kingdom	North America	1997 Total	1996 Total (as restated)
	%	%	%	%
EQUITIES AND CONVERTIBLES				
Mineral extraction	1.4	—	**1.4**	1.7
General industrials	22.8	—	**22.8**	27.2
Consumer goods	5.9	—	**5.9**	8.0
Services	23.4	—	**23.4**	13.7
Utilities	14.7	—	**14.7**	12.7
Financials	15.9	—	**15.9**	15.6
Investment trusts	8.6	—	**8.6**	8.7
	92.7	—	**92.7**	87.6
FIXED INTEREST STOCKS	6.5	—	**6.5**	11.0
UNLISTED INVESTMENTS	0.2	0.6	**0.8**	1.4
TOTAL PORTFOLIO				
—AT 31 MARCH 1997	**99.4**	**0.6**	**100.0%**	
—AT 31 MARCH 1996	98.8	1.2		100.0%

DIRECTORS

A. John R. Izat (Chairman)

Age 64. Joined the Board in 1988 and elected Chairman in June 1996. Partner in Williams de Broë Hill Chaplin & Co, Stockbrokers, from 1955 to 1975. Chairman of United Auctions (Scotland) PLC and a director of Shires Smaller Companies plc and other companies.

J. Martin Haldane C.A.*

Age 55. Joined the Board in February 1996. Partner in Chiene & Tait, Chartered Accountants. Director of Investors Capital Trust PLC, The Scottish Life Assurance Company and a number of other companies.

Michael S. Hardie C.A.*

Age 70. Joined the Board in March 1987 and served as Chairman from June 1987 to June 1996. Formerly investment director of Friends' Provident Life Office and chairman of Shires Smaller Companies plc.

John A. D. Harrison O.B.E.*

Age 65. Joined the Board in 1995. Chairman of Johnstons of Elgin Limited and a member of the Highlands and Islands Enterprise Board. Director of the Aberdeen and North Board of the Bank of Scotland and other companies.

John Stubbs*

Age 53. Joined the Board in 1985. Director and Chief Investment Officer of Ivory & Sime plc. Formerly head of UK equities and international index matching at Hermes Pensions Management Limited (previously PosTel Investment Management Limited). Chairman of Shires Smaller Companies plc and Warrants and Value Investment Trust plc.

*Member of the Audit Committee

MANAGERS AND SECRETARIES

Glasgow Investment Managers Limited
Sutherland House
149 St Vincent Street, Glasgow G2 5DR
(regulated by IMRO)

AUDITORS

KPMG Audit Plc

SOLICITORS

Maclay Murray & Spens
Travers Smith Braithwaite

FINANCIAL ADVISER

Hambros Bank Limited

STOCKBROKERS

Cazenove & Co

BANKERS

Bank of Scotland

REGISTRARS AND TRANSFER OFFICE

Bank of Scotland
Registrar Services
Apex House
9 Haddington Place
Edinburgh EH7 4AL
Telephone: 0131-243 5187

REGISTERED OFFICE

165 Queen Victoria Street
London EC4V 4DD

COMPANY REGISTRATION NUMBER 386561 (ENGLAND)

Report of the Directors

STATUS OF THE COMPANY

The Company, which was incorporated in 1929, has received approval as an investment trust by the Inland Revenue for the year ended 31 March 1996 and has since conducted its affairs so as to enable it to retain such approved status. It is a member of the Association of Investment Trust Companies. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

PERSONAL EQUITY PLANS

The Company qualifies for the maximum investment trust limit in a personal equity plan. It is the Directors' intention that the Company should continue to be a qualifying trust.

RESULTS AND DIVIDENDS

The financial statements for the year ended 31 March 1997 appear on pages 13 to 30.

A final dividend of 4.3p per share is proposed which, together with the interim dividends already paid, takes the total dividends for the year to 16.8p per share (1996—16.8p).

ACTIVITIES

The Company is an authorised investment trust. Its principal subsidiary undertakings are Wiston Investment Company Limited, an investment dealing company, and Glasgow Investment Managers Limited, its Managers and Secretaries.

The Company has a 26.9% interest in Shires Smaller Companies plc, a listed investment trust (see note 13).

REVIEW OF THE BUSINESS

A review of the business is given in the Chairman's Statement and the Managers' Review.

DIRECTORS

The Directors are shown on page 8. All held office throughout the year. J. Stubbs retires by rotation and, being eligible, offers himself for re-election.

M. S. Hardie, having attained the age of 70, retires at the Annual General Meeting and does not offer himself for re-election.

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors in office at 31 March 1997 in the capital of the Company were as follows:

	Beneficial Interest		Non-Beneficial Interest	
	31 March 1997	31 March 1996	31 March 1997	31 March 1996
Ordinary shares of 50p each				
J. M. Haldane	2,000	—	—	—
M. S. Hardie	1,000	1,000	—	—
J. A. D. Harrison	4,000	4,000	—	—
A. J. R. Izat	21,937	20,452	2,000	2,000

J. Stubbs had no interests in the capital of the Company at any time during the year. No Director had an interest in the 3.5% cumulative preference share capital at any time during the year.

There have been no changes in the Directors' interests between the year end and 23 May 1997.

CORPORATE GOVERNANCE

The Board currently comprises five non-executive Directors. All of them are connected with the Company's Managers, Glasgow Investment Managers Limited (GIM), as GIM is a subsidiary of the Company (see note 12 to the financial statements). M. S. Hardie is non-executive Chairman of GIM and A. J. R. Izat is also a non-executive Director of GIM.

In the Board's view the Company complied throughout the year with all the requirements of the best practice provisions annexed to the Listing Rules of the London Stock Exchange ("the Code").

Report of the Directors

Internal Financial Control
The Directors acknowledge that they are responsible for the Group's system of internal financial control. The system is maintained by GIM. GIM provides monthly financial reports to the Board which meets regularly and reviews these reports. An independent custodian is appointed to safeguard the Group's investments. GIM provides reports to the Board on its control procedures and its system of internal financial control. This system is designed to provide reasonable but not absolute assurance against material misstatement or loss. The Directors confirm that they have reviewed the system that has been in operation during the year.

Going Concern
The Directors consider that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason they continue to apply the going concern basis in preparing the financial statements.

The auditors, KPMG Audit Plc, have confirmed that in their opinion: with respect to the Directors' statements on internal financial control and going concern above, the Directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which the auditors are aware from their audit work on the financial statements: and that the Directors' statement above appropriately reflects the Group's compliance with the other aspects of the Code specified by the Listing Rules for the auditors' review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

PAYMENT POLICY
It is the Company's payment policy to settle terms before business is agreed, to ensure suppliers are aware of them and to pay invoices in accordance with those terms.

At 31 March 1997, the amount of the Company's outstanding trade creditors was equivalent to 18 days of management expenses for the year ending on that date (1996 — 5 days). This excludes creditors in respect of investment activities.

SUBSTANTIAL INTERESTS
As at 23 May 1997 the Company had received notification of the following interests in its ordinary shares:

	Ordinary Shares	*% of Total*
Sun Life & Provincial Holdings plc, a subsidiary of AXA S.A.	3,010,662	10.7

SHARE CAPITAL
During the year, 263,458 new ordinary shares were issued to holders of the 11% Convertible Unsecured Loan Stock 2003/2004 who exercised their conversion rights. The total premium arising was £395,000. Since the year end, 335,871 ordinary shares have been issued on the conversion of £671,743 of the Convertible Unsecured Loan Stock.

CREST
In July 1996 the London Stock Exchange introduced CREST, a computerised settlement system for market transactions in securities which enables shareholders to hold and transfer their shareholdings in electronic form rather than paper. It is a voluntary system, and shareholders who prefer certificates may hold and trade their shares in that form.

The Company's ordinary shares and Convertible Unsecured Loan Stock joined CREST on 7 April 1997.

Report of the Directors

ANNUAL GENERAL MEETING

At the last Annual General Meeting, shareholders gave Directors the authority under Section 80 of the Companies Act 1985 to allot shares in the Company. Although that authority does not expire until 2001, it is considered that it would be helpful to renew it each year for a five-year period, as permitted under the Companies Act. Accordingly, an ordinary resolution will be proposed giving the Directors general authority to allot shares in the Company in connection with the conversion of the Convertible Unsecured Loan Stock and, in addition, to the extent of one-third of the Company's present issued ordinary share capital.

The power given to Directors at the last Annual General Meeting to allot shares for cash otherwise than in accordance with statutory pre-emption rights expires on the date of the forthcoming Annual General Meeting. Since in certain circumstances it may be in the best interests of the Company to issue shares for cash otherwise than *pro rata* to existing shareholders, the Directors consider that it is appropriate for this power to be renewed at the forthcoming Annual General Meeting. A special resolution will accordingly be proposed giving the Directors power to allot for cash equity securities in connection with a rights issue and, provided the shares are issued at a price not less than their underlying fully diluted net asset value, in other cases up to an aggregate nominal amount of £705,733, which is equivalent to 5% of the present issued ordinary share capital of the Company.

AUDITORS

A resolution re-appointing KPMG Audit Plc as auditors and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

for Glasgow Investment Managers Limited
Secretaries

27 May 1997

Directors' Responsibilities in Relation to the Preparation of the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of its total return for the year then ended. In preparing those financial statements, the Directors are required to:

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

The Directors confirm that the financial statements comply with these requirements.

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

Report of the Auditors, KPMG Audit Plc

To the members of Shires Income plc

We have audited the financial statements on pages 13 to 30.

Respective responsibilities of Directors and Auditors
As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1997 and of the total return of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc KPMG Audit Plc
Chartered Accountants
Registered Auditor
Glasgow

27 May 1997

Consolidated Statement of Total Return (incorporating the Revenue Account*)

for the year ended 31 March 1997

	Notes	1997 Revenue £000	1997 Capital £000	1997 Total £000	1996 (as restated per note 1(h)) Revenue £000	1996 Capital £000	1996 Total £000
Gains on investments	11	—	9,365	9,365	—	8,816	8.816
Income	2	8,102	—	8,102	8,646	—	8,646
Associated undertaking		377	1,392	1,769	411	1,472	1,883
Management and administrative expenses	4	1,379	213	1,592	938	197	1,135
NET RETURN BEFORE FINANCE COSTS AND TAXATION		7,100	10,544	17,644	8,119	10,091	18,210
Finance costs of borrowings	6	1,479	954	2,433	1,455	1,172	2.627
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		5,621	9,590	15,211	6,664	8,919	15,583
Taxation	7	1,058	(124)	934	1,223	—	1,223
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		4,563	9,714	14,277	5,441	8,919	14,360
Preference dividend	9	2	—	2	2	—	2
Minority equity interest		35	—	35	14	—	14
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS		4,526	9,714	14,240	5,425	8,919	14,344
Comprising:							
Profit for the year		4,290			5,425		
Unrealised profit taken to unrealised revenue reserve	22	236			—		
Dividends on equity shares	9	4,686	—	4,686	4,642	—	4,642
TRANSFER (FROM)/TO RESERVES	24	(160)	9,714	9,554	783	8,919	9,702
Return per ordinary share							
—undiluted	10	16.23p	34.82p	51.05p	19.64p	32.29p	51.93p
—fully diluted	10	15.70p	33.20p	48.90p	18.81p	30.59p	49.40p
Dividends per ordinary share		16.80p			16.80p		

* The revenue column of this statement is the consolidated revenue account of the Group.

The accompanying notes are an integral part of this statement.

All revenue and capital items in this statement derive from continuing operations.

No operations were acquired or discontinued during the year.

Balance Sheets

as at 31 March 1997

	Notes	GROUP 1997	GROUP 1996 (as restated per note 1(h))	COMPANY 1997	COMPANY 1996 (as restated per note 1(h))
		£000	£000	£000	£000
FIXED ASSETS					
Investments	11	**111,923**	103,818	**111,923**	103,818
Subsidiary undertakings	12	**—**	—	**646**	646
Associated undertaking	13	**10,389**	9,009	**10,389**	9,009
Tangible assets	14	**276**	83	**—**	—
		122,588	112,910	**122,958**	113,473
CURRENT ASSETS					
Debtors	15	**2,300**	2,321	**3,346**	2,648
Dealing investments held by subsidiary undertakings	16	**1,804**	528	**—**	—
Cash at bank and in hand		**484**	20	**31**	—
		4,588	2,869	**3,377**	2,648
CREDITORS					
Amounts falling due within one year	17	**12,342**	11,060	**11,554**	11,238
NET CURRENT LIABILITIES		**(7,754)**	(8,191)	**(8,177)**	(8,590)
TOTAL ASSETS LESS CURRENT LIABILITIES		**114,834**	104,719	**114,781**	104,883
CREDITORS					
Amounts falling due after more than one year (including convertible debt)	18	**24,046**	24,047	**24,046**	24,047
MINORITY EQUITY INTEREST		**79**	44	**—**	—
NET ASSETS		**90,709**	80,628	**90,735**	80,836
CAPITAL AND RESERVES					
Called up share capital	19	**13,997**	13,865	**13,997**	13,865
Share premium account	20	**17,865**	17,522	**17,865**	17,522
Other capital reserves	21				
Realised		**34,681**	35,650	**32,751**	33,724
Unrealised		**20,083**	9,348	**22,566**	11,734
Revenue reserves	22				
Realised		**3,847**	4,243	**3,556**	3,991
Unrealised		**236**	—	**—**	—
SHAREHOLDERS' FUNDS (Including non-equity)	24	**90,709**	80,628	**90,735**	80,836
Net asset value per ordinary share					
—undiluted		**325.02p**	291.63p		
—fully diluted		**317.62p**	285.39p		

Approved by the Board of Directors on 27 May 1997 and signed on its behalf.

A. J. R. Izat, Chairman

The accompanying notes are integral parts of these balance sheets.

Consolidated Cash Flow Statement

for the year ended 31 March 1997

	Notes	1997 £000	1997 £000	1996 (as restated per note 1(h)) £000	1996 (as restated per note 1(h)) £000
OPERATING ACTIVITIES					
Dividends and interest received					
—from investments			5,219		5,615
—from associated undertaking			314		299
Income tax recovered			336		430
Interest received			22		42
Investment dealing receipts			3,796		235
Traded option margin deposit			—		500
Other cash received			1,559		1,040
Payments to and on behalf of Directors			(53)		(46)
Investment dealing payments			(5,168)		(340)
Other cash payments			(1,210)		(1,011)
NET CASH INFLOW FROM OPERATING ACTIVITIES	25		4,815		6,764
SERVICING OF FINANCE					
Interest paid		(1,606)		(1,522)	
Payments of income tax		(510)		(366)	
Preference dividends paid		(2)		(2)	
			(2,118)		(1,890)
TAXATION					
Corporation tax paid		—		(10)	
Corporation tax refunded		—		48	
			—		38
CAPITAL EXPENDITURE					
Purchases of investments		(35,042)		(50,619)	
Purchases of tangible fixed assets		(250)		(44)	
Sales of investments		36,614		49,277	
Sales of tangible fixed assets		24		—	
			1,346		(1,386)
EQUITY DIVIDENDS PAID			(4,664)		(4,627)
NET CASH OUTFLOW BEFORE FINANCING			(621)		(1,101)
FINANCING					
Debt due within one year					
—increase in short-term borrowings			932		3,013
Issues of ordinary shares			—		88
INCREASE IN CASH	27		311		2,000

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

The financial statements of the Company and of the Group 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 *(m)* 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) Consolidation

The group financial statements consolidate the results of the Company, its subsidiary undertakings and, as explained at *(d)* below, those of its associated undertakings. The Company has availed itself of the relief from showing a revenue account for the parent company granted under Section 230 of the Companies Act 1985.

(c) Goodwill

The surplus of the purchase consideration of the subsidiary and associated undertakings over the fair value of the underlying net assets represents goodwill which is written off against realised capital reserve.

(d) 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 (i) in the group accounts at the Group's share of the fair value of assets at the date of acquisition together with the Group's share of retained revenue and capital reserves since the date of acquisition, and (ii) in the Company's accounts at net asset value.

The consolidated statement of total return reflects the attributable share of post-tax revenue and capital returns of an associated undertaking for periods concurrent with the Group financial year based on audited accounts for the year to 31 December and interim unaudited information announced to the Stock Exchange for the period to 31 March. In the Company's financial statements the revenue account includes dividend income from an associated undertaking accounted for in accordance with accounting policy *(h)* and the capital account includes the change in the net asset value of the Company's investment in an associated undertaking.

(e) 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.

(f) Gains and losses on investment transactions

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

Investments held by investment dealing subsidiaries are shown as current assets at the lower of cost and market value.

(g) Tangible fixed assets and depreciation

Depreciation is provided to write down the cost of motor vehicles and equipment by equal annual instalments over four years. Leasehold property improvements are depreciated evenly over the period of the lease.

Notes to the Financial Statements

(h) 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 debt securities, 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.

The investment management fee and finance costs of borrowings are charged partly to capital and partly to revenue in proportion to the expected long term split of returns in the form of capital gains and income from the Company's entire investment portfolio (see note (i) and note *(k)* below). All other expenses of management are charged wholly to revenue. 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.

The effect of these changes on this year's financial statements has been to increase the revenue return after tax by £460,000 (1996—£745,000) and reduce the capital return after tax by the same amount. The other effects are shown in note 23 to the financial statements.

(i) Taxation
Deferred taxation is provided at the appropriate rate if there is reasonable evidence that such deferred taxation will become payable in the foreseeable future.

The policy for allocating tax relief obtained in respect of costs allocated between capital and revenue is described in note *(m)* (ii) below.

(j) 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.

(k) 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 realised capital reserve. The discount on issue is amortised annually to share premium account over the life of the Debenture. Interest payable on the Debenture is charged to revenue account.

By making this allocation between capital and revenue, the increase in the redemption value is deemed to be matched against the expected capital appreciation of the investment portfolio, in which the original proceeds of issue were invested, and the interest payments are deemed to be matched against the income from the investments.

(l) Pension costs
The Company's subsidiary undertaking, Glasgow Investment Managers Limited, operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The amount charged to revenue represents the contributions payable to the scheme in respect of the accounting period.

Notes to the Financial Statements

(m) 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 generally 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 the revenue account would have been £72,000 lower and the realised capital reserve would have been charged with a further £72,000.

2. INCOME

	1997	1996 (as restated per note 1(h))
	£000	£000
Income from listed investments		
Franked investment income	5,278	6,153
UK unfranked investment income	550	952
Foreign income dividends	122	212
	5,950	7,317
Income from unlisted investments		
Franked investment income	4	8
Overseas income	—	14
	4	22
Other income		
Interest receivable	27	40
Traded option premiums	300	555
Underwriting commission	55	54
Fund management—external revenue	1,209	625
Profits less losses of dealing subsidiary*	557	33
	2,148	1,307
Total income	8,102	8,646
Total income comprises:		
Dividends	5,954	7,339
Interest	27	40
Other	2,121	1,267
	8,102	8,646

Franked investment income from listed investments includes special dividends totalling £328,000 (1996—£879,000).

All dividend income was received from UK companies, except as shown.

*This includes a profit of £236,000 on the sale of an investment by the dealing subsidiary to Shires Income which was still held by Shires Income at the year end.

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 year ended 31 March 1997 was £451,000 (1996—£419,000). No VAT is payable on the fee as the Company and GIM are both members of the same VAT group registration. £25,000 of the annual total fee is in respect of secretarial services and is allocated to revenue. The remainder of the fee is in respect of investment management and is allocated 50% to capital and 50% to revenue.

At 31 March 1997 the amount of such fees owed to GIM was £118,000 (1996—£108,000).

4. MANAGEMENT AND ADMINISTRATIVE EXPENSES

		1997			1996 (as restated per note 1(h))	
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Administrative expenses are made up as follows:						
Shires Income expenses:						
Investment management fee	213	213	426	197	197	394
Secretarial fee	25	—	25	25	—	25
Other administrative expenses	227	—	227	198	—	198
	465	213	678	420	197	617
Less: Fees payable to Glasgow Investment Managers cancelled on consolidation	(451)	—	(451)	(419)	—	(419)
Add: Glasgow Investment Managers—total expenses	1,365	—	1,365	937	—	937
	1,379	213	1,592	938	197	1,135

	1997 £000	1996 £000
Administrative expenses include:		
Directors' remuneration—fees as directors (see note 5)	55	45
Auditors' remuneration		
—parent undertaking	12	12
—subsidiary undertakings	5	4
Fees payable to auditors for other services	12	17
Depreciation	49	32
Operating lease charges	68	49

Notes to the Financial Statements

5. EMPLOYEE COSTS AND DIRECTORS' REMUNERATION

The Company had no direct employees (1996—Nil). Glasgow Investment Managers Limited had 16 employees during the year (1996—13). Total group employee costs (including Directors of the Company) were:

	1997 £000	1996 £000
Wages and salaries	685	467
Social Security costs	72	46
Other pension costs	70	62
	827	575

The aggregate emoluments of Directors was £55,000 (1996—£45,000) and includes £12,000 (1996 — £7,000) paid by a subsidiary undertaking.

The highest paid Director received a total of £16,275 (1996—£14,688).

No pension contributions were paid for Directors (1996—Nil).

6. FINANCE COSTS OF BORROWINGS

	1997			1996 (as restated per note 1(h))		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Bank loans and overdrafts repayable within five years	235	235	470	209	209	418
5% Index-Linked Debenture Stock 2008/2010	1,051	526	1,577	1,024	741	1,765
11% Convertible Unsecured Loan Stock 2003/2004	193	193	386	222	222	444
	1,479	954	2,433	1,455	1,172	2,627

7. TAXATION

	1997			1996 (as restated per note 1(h))		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Tax on franked investment income	1,057	—	1,057	1,232	—	1,232
Adjustments in respect of previous year	(74)	(124)	(198)	(48)	—	(48)
Movement in provision for advance corporation tax	—	—	—	(40)	—	(40)
	983	(124)	859	1,144	—	1,144
Share of taxation charge of associated undertaking	75	—	75	79	—	79
	1,058	(124)	934	1,223	—	1,223

Notes to the Financial Statements

8. REVENUE ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The revenue attributable to members includes £4,253,000 (1996 restated—£5,285,000) which has been dealt with in the Company's financial statements.

9. DIVIDENDS

			1997 £000	1996 £000
Ordinary shares				
Interims paid	**8.3p**	(1996—8.3p)	**2,315**	2,293
Interim payable	**4.2p**	(1996—4.2p)	**1,172**	1,161
Proposed final	**4.3p**	(1996—4.3p)	**1,199**	1,188
	16.8p	16.8p	**4,686**	4,642
Cumulative preference shares			**2**	2

10. RETURN PER ORDINARY SHARE

The undiluted returns per ordinary share are based on the following figures:

	1997	1996 (as restated per note 1(h))
Revenue return	**£4,526,000**	£5,425,000
Capital return	**£9,714,000**	£8,919,000
Weighted average number of ordinary shares	**27,893,437**	27,620,478

The fully diluted returns per ordinary share have been calculated on the assumption that all outstanding Loan Stock (see note 18) was converted on the first day of the financial year. The adjusted revenue return allows for interest savings on conversion of the Loan Stock, net of corporation tax at a rate of 33%. The figures used for the fully diluted returns per ordinary share were as follows:

	1997	1996 (as restated per note 1(h))
Adjusted revenue return	**£4,655,000**	£5,574,000
Adjusted capital return	**£9,843,000**	£9,068,000
Weighted average number of ordinary shares	**29,648,374**	29,638,873

Notes to the Financial Statements

11. INVESTMENTS

	GROUP AND COMPANY 1997 £000	1996 (as restated) £000
Listed on stock exchanges:		
In the United Kingdom	**110,876**	102,260
Overseas	**24**	49
	110,900	102,309
Unlisted	**1,023**	1,509
	111,923	103,818

	GROUP Listed Investments £000	GROUP Unlisted Investments £000	GROUP Total £000	COMPANY Listed Investments £000	COMPANY Unlisted Investments £000	COMPANY Total £000
Cost at 31 March 1996	93,365	2,489	95,854	93,365	2,489	95,854
Unrealised appreciation/(depreciation) as originally reported	9,095	(980)	8,115	9,095	(980)	8,115
Valuation at 31 March 1996 as originally reported	102,460	1,509	103,969	102,460	1,509	103,969
Prior year adjustment (see note 23)	(151)	—	(151)	(151)	—	(151)
Valuation at 31 March 1996 (restated)	102,309	1,509	103,818	102,309	1,509	103,818
Purchases	34,658	—	34,658	35,017	—	35,017
Sales—proceeds	(35,338)	(592)	(35,930)	(35,802)	(592)	(36,394)
—net gains/(losses) on sales	(152)	65	(87)	(47)	65	18
Movement in unrealised appreciation or depreciation during the year	9,423	41	9,464	9,423	41	9,464
Valuation at 31 March 1997	110,900	1,023	111,923	110,900	1,023	111,923
Cost at 31 March 1997	92,533	1,962	94,495	92,533	1,962	94,495
Unrealised appreciation/(depreciation) at 31 March 1997	18,367	(939)	17,428	18,367	(939)	17,428
Valuation at 31 March 1997	110,900	1,023	111,923	110,900	1,023	111,923

GAINS ON INVESTMENTS

	GROUP 1997 £000	1996 (as restated) £000
Net realised gains/(losses) on sales of investments	**(87)**	792
Movement in unrealised appreciation/(depreciation) of investments	**9,464**	7,978
Movement in unrealised depreciation of traded options	**(12)**	46
	9,365	8,816

At 31 March 1997 the Company held the following investments comprising more than 10% of the class of share capital held:

Company	*Country of Incorporation*	*Number and Class of Shares held*	*Percentage of Class held*
Dennis Ruabon Limited	England	163,548 ordinary	12.8%
R.E.A. Holdings plc	England	654,000 9% cum pref	14.1%
Sierra Monitor Corporation	USA	1,549,134 shares of common stock	15.0%

Notes to the Financial Statements

12. SUBSIDIARY UNDERTAKINGS

Cost and Net Book Value:	£000
At 31 March 1996 and 31 March 1997	646

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	*84%	Investment management
		Redeemable Preference	100%	

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

13. ASSOCIATED UNDERTAKING

As at 31 March 1997 the Company had a 26.9% (1996—27.0%) interest in the ordinary shares of Shires Smaller Companies plc, an investment trust listed on the London Stock Exchange and registered in Scotland. At 31 March 1997 the investment in Shires Smaller Companies ordinary shares had a market value of £8,042,000 (1996—£6,863,000). Shires Smaller Companies had 19,490,295 (1996—19,403,090) ordinary shares in issue at 31 March 1997.

Dividends receivable from Shires Smaller Companies (including the related tax credit) for the year to 31 March 1997 amounted to £393,000 (1996—£373,000).

Particulars of the investment in Shires Smaller Companies are as follows:

GROUP

	£000
Share of net assets at date of acquisition	5,006
Share of post acquisition reserves:	
At 31 March 1996	4,003
Retained revenue	(12)
Net movements on capital reserves	1,392
At 31 March 1997	5,383
Net Asset Value:	
At 31 March 1997	10,389
At 31 March 1996	9,009

COMPANY

Cost:	
At 31 March 1996 and 31 March 1997	5,239
Increase in net asset value:	
At 31 March 1996	3,770
Increase during year	1,380
At 31 March 1997	5,150
Net Asset Value:	
At 31 March 1997	10,389
At 31 March 1996	9,009

Notes to the Financial Statements

14. TANGIBLE ASSETS

GROUP	Motor vehicles £000	Equipment £000	Leasehold improvement £000	Total £000
Cost:				
At 31 March 1996	104	67	9	180
Additions	90	112	48	250
Disposals	(49)	(15)	(9)	(73)
At 31 March 1997	145	164	48	357
Aggregate depreciation:				
At 31 March 1996	54	36	7	97
Provided during year	29	18	2	49
Disposals	(44)	(13)	(8)	(65)
At 31 March 1997	39	41	1	81
Net Book Value:				
At 31 March 1997	106	123	47	276
At 31 March 1996	50	31	2	83

COMPANY

The Company has no tangible fixed assets (1996—Nil).

15. DEBTORS

	GROUP		COMPANY	
Amounts falling due within one year:	1997 £000	1996 (as restated) per note 1(h)) £000	1997 £000	1996 (as restated per note 1(h)) £000
Investment sales	**739**	684	**—**	684
Taxation recoverable	**198**	—	**198**	—
Accrued income	**1,175**	1,523	**990**	1,429
Due from subsidiary undertakings	**—**	—	**2,148**	527
Due from associated undertaking	**90**	79	**—**	—
Other debtors	**98**	35	**10**	8
	2,300	2,321	**3,346**	2,648

16. DEALING INVESTMENTS HELD BY SUBSIDIARY UNDERTAKINGS

At lower of cost and market value:

	GROUP 1997 £000	1996 £000
Listed on stock exchanges:		
In the United Kingdom	**1,669**	481
Overseas	**33**	47
	1,702	528
Unlisted	**102**	—
	1,804	528

The market value of the listed investments held at 31 March 1997 was £2,992,000 (1996—£771,000).

Notes to the Financial Statements

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Bank loans and overdrafts	**8,728**	7,643	**8,676**	7,598
Investment purchases	**322**	620	**—**	620
Other taxation	**85**	93	**85**	93
Dividends payable and proposed	**2,371**	2,349	**2,371**	2,349
Due to subsidiary undertakings	**—**	—	**99**	404
Other creditors	**836**	355	**323**	174
	12,342	11,060	**11,554**	11,238

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP AND COMPANY	
	1997	1996
	£000	£000
11% Convertible Unsecured Loan Stock 2003/2004	**3,510**	4,037
5% Index-Linked Debenture Stock 2008/2010	**20,536**	20,010
	24,046	24,047

11% Convertible Unsecured Loan Stock 2003/2004

The 11% Convertible Unsecured Loan Stock may be converted at the stockholders' option 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. In addition, as more than 75% of the Loan Stock has been converted, the Company is entitled, by giving notice to stockholders within 30 days after the conversion date in any year, to require conversion of the whole of the outstanding Stock, in which event the stockholders would be entitled to receive ordinary shares or to elect to have the whole or any part of their holding repaid at par in cash together with accrued interest.

On 1 April 1996 £526,916 of the Loan Stock was converted into 263,458 ordinary shares. A further £671,743 of Loan Stock was converted into 335,871 ordinary shares on 1 April 1997, leaving £2,838,131 of Loan Stock outstanding.

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, Topshire Limited and Wiston Investment Company 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 March 1997 comprises:

	GROUP AND COMPANY	
	£000	£000
Nominal amount		16,000
Discount on issue	(979)	
Amortisation of discount	366	
		(613)
Index-linked adjustment charged to capital reserve		5,149
		20,536

The movement during the year was as follows:	
Amount outstanding at 31 March 1996	20,010
Amortisation of discount (note 20)	52
Index-linked adjustment (note 21)	474
Amount outstanding at 31 March 1997	20,536

Notes to the Financial Statements

19. CALLED UP SHARE CAPITAL

	AUTHORISED		ALLOTTED, CALLED UP AND FULLY PAID			
	1997	1996	**1997**		1996	
	£000	£000	**Number**	**£000**	Number	£000
Ordinary shares of 50p each	**19,900**	19,900	**27,893,437**	**13,947**	27,629,979	13,815
3.5% (formerly 5%) cumulative preference shares of £1 each	**100**	100	**50,000**	**50**	50,000	50
	20,000	20,000		**13,997**		13,865

The only change in called up share capital during the year was the issue of 263,458 new ordinary shares on the conversion of £526,916 of the 11% Convertible Unsecured Loan Stock 2003/2004 on 1 April 1996.

A further 335,871 ordinary shares have since been issued on the conversion of £671,743 of the Loan Stock on 1 April 1997.

20. SHARE PREMIUM ACCOUNT

	£000
At 31 March 1996	17,522
On the conversion of Loan Stock	395
Amortisation of discount on issue of Debenture Stock (note 18)	(52)
At 31 March 1997	17,865

Notes to the Financial Statements

21. OTHER CAPITAL RESERVES

Realised capital reserve	GROUP £000	COMPANY £000
At 31 March 1996 as originally reported	36,365	34,439
Prior year adjustments (see note 23)	(715)	(715)
At 31 March 1996 (restated)	35,650	33,724
Net gains/(losses) on sales of investments during year	127	18
Management fee (note 4)	(213)	(213)
Finance costs of borrowings:		
Bank loans and overdrafts repayable within five years	(235)	(235)
11% Convertible Unsecured Loan Stock 2003/2004	(193)	(193)
Index-linked adjustment to redemption value of Debenture Stock (note 18)	(474)	(474)
Tax credit in respect of previous years allocated to capital	124	124
Intra-group transaction eliminated	(105)	—
At 31 March 1997	34,681	32,751

At 31 March 1997 £305,000 (1996—£305,000) had been written off to group realised capital reserve by way of goodwill arising on the acquisition of subsidiary undertakings still owned by the Group.

Unrealised capital reserve	GROUP £000	COMPANY £000
At 31 March 1996	9,499	11,885
Prior year adjustments (see note 23)	(151)	(151)
At 31 March 1996 (restated)	9,348	11,734
Movements during the year:		
Fixed asset investments	10,747	9,464
Traded options	(12)	(12)
Increase in value of investment in associated undertaking	—	1,380
At 31 March 1997	20,083	22,566

The capital reserves are not distributable.

22. REVENUE RESERVE

	GROUP		COMPANY
	Realised £000	Unrealised £000	Realised £000
At 31 March 1996 as originally reported	3,377	—	3,125
Prior year adjustments (see note 23)	866	—	866
At 31 March 1996 (restated)	4,243	—	3,991
Transfer (to)/from revenue account	(396)	236	(435)
At 31 March 1997	3,847	236	3,556

Notes to the Financial Statements

23. PRIOR YEAR ADJUSTMENTS

The prior year adjustments shown in notes 11, 21 and 22 all relate to the changes in accounting policies contained in note 1(h). Details are as follows:

	Fixed Asset Investments £000	Realised Capital Reserve £000	Unrealised Capital Reserve £000	Revenue Reserve £000
Finance costs and investment management fee charged to capital	—	(627)	—	627
Interest from debt securities	(151)	(93)	(151)	244
Underwriting commission	—	5	—	(5)
	(151)	(715)	(151)	866

24. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 **£000**	1996 (as restated per note 1(h)) £000
Total revenue returns after taxation as previously reported	**4,563**	4,696
Prior year adjustment (see note 1(h))	**—**	745
Total revenue returns after taxation as restated	**4,563**	5,441
Minority interests	**(35)**	(14)
Dividends	**(4,688)**	(4,644)
Transfer (from)/to revenue reserves	**(160)**	783
Total capital returns as previously reported	**9,714**	9,664
Prior year adjustments (see note 1(h))	**—**	(745)
Total capital returns as restated	**9,714**	8,919
Issues of ordinary shares		
—on conversion of Loan Stock	**527**	283
—to investors in The Glasgow TrustPlan and The Glasgow PEP	**—**	88
Net addition to shareholders' funds	**10,081**	10,073
Shareholders' funds at 31 March 1996	**80,628**	70,555
Shareholders' funds at 31 March 1997	**90,709**	80,628
Equity shareholders' funds	**90,659**	80,578
Non-equity shareholders' funds	**50**	50
	90,709	80,628

Notes to the Financial Statements

25. RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997	1996 (as restated per note 1(h))
	£000	£000
Net revenue before finance costs and taxation	7,100	8,119
Unrealised profit taken to unrealised revenue reserve	(236)	—
Gross dividends received from associated undertaking	393	373
Share of revenue of associated undertaking	(377)	(411)
Investment management fee charged to capital	(213)	(197)
Decrease/(Increase) in accrued income	337	(348)
Increase in dealing investments	(1,276)	(138)
(Increase)/Decrease in other debtors	(798)	502
Increase/(Decrease) in other creditors	777	(85)
Depreciation	49	32
Profit on sales of fixed assets	(20)	—
Tax on investment income	(1,136)	(1,306)
Income tax credits on unfranked investment income	(121)	(207)
Repayment of UK income tax	336	430
Net cash inflow from operating activities	4,815	6,764

26. ANALYSIS OF CHANGES IN NET DEBT

	At 31 March 1996	Cash flows	Other non-cash changes	At 31 March 1997
	£000	£000	£000	£000
Cash at bank and in hand	20	464	—	484
Bank overdrafts	(630)	(153)	—	(783)
Short-term borrowings	(7,013)	(932)	—	(7,945)
11% Convertible Unsecured Loan Stock 2003/2004	(4,037)	—	527	(3,510)
5% Index-Linked Debenture Stock 2008/2010	(20,010)	—	(526)	(20,536)
	(31,670)	(621)	1	(32,290)

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

	1997	1996
	£000	£000
Increase/(Decrease) in cash at bank and in hand	464	(142)
(Increase)/Decrease in bank overdrafts	(153)	2,142
Increase in cash during the year	311	2,000
Increase in short-term borrowings	(932)	(3,013)
Change in net debt resulting from cash flows	(621)	(1,013)
Conversion of Loan Stock into equity share capital	527	283
Amortisation of discount on issue of Debenture Stock	(52)	(52)
Index-linked adjustment to redemption value of Debenture Stock	(474)	(689)
Change in net debt	(620)	(1,471)
Net debt at 31 March 1996	(31,670)	(30,199)
Net debt at 31 March 1997	(32,290)	(31,670)

Notes to the Financial Statements

28. COMMITMENTS AND CONTINGENCIES

	GROUP		COMPANY	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Uncalled capital on investments	**1,020**	128	**735**	128
Outstanding underwriting commitments	**—**	732	**—**	732

At 31 March 1997 a subsidiary undertaking had annual commitments of £63,000 (1996—£46,000) under a non-cancellable operating lease in respect of land and buildings expiring in the second to fifth years.

The Company has provided a guarantee in respect of the subsidiary undertaking's obligations under another lease expiring in June 1997. All outstanding obligations in respect of this lease had been provided for in these accounts as at 31 March 1997.

29. PENSION SCHEME

Glasgow Investment Managers Limited (GIM), a subsidiary undertaking of the Company, operates a defined contribution pension scheme for its employees. GIM's total pension charge for the year was £70,000 (1996—£61,590). Contributions totalling £58,826 (1996—£43,245) were outstanding at the year end and are included in creditors.

Ten Year Record

INCOME

Year ended 31 March	Net revenue before tax £000	Revenue return per ordinary share (pence) undiluted	Revenue return per ordinary share (pence) fully diluted	Ordinary dividend (pence)
1988	3,395	17.49	15.40	14.75
1989	3,482	16.54	15.19	15.50
1990	3,902	18.65	16.43	16.75
1991	5,192	19.03	17.71	17.80
1992	5,806	19.54	18.39	18.40
1993	5,899	17.48	16.95	18.40
1994	5,558	17.41	16.99	16.80
1995	6,099	18.10	17.85	16.80
1996*	5,919	16.94	16.79	16.80
1996†	6,664	19.64	18.81	16.80
1997	5,621	16.23	15.70	16.80

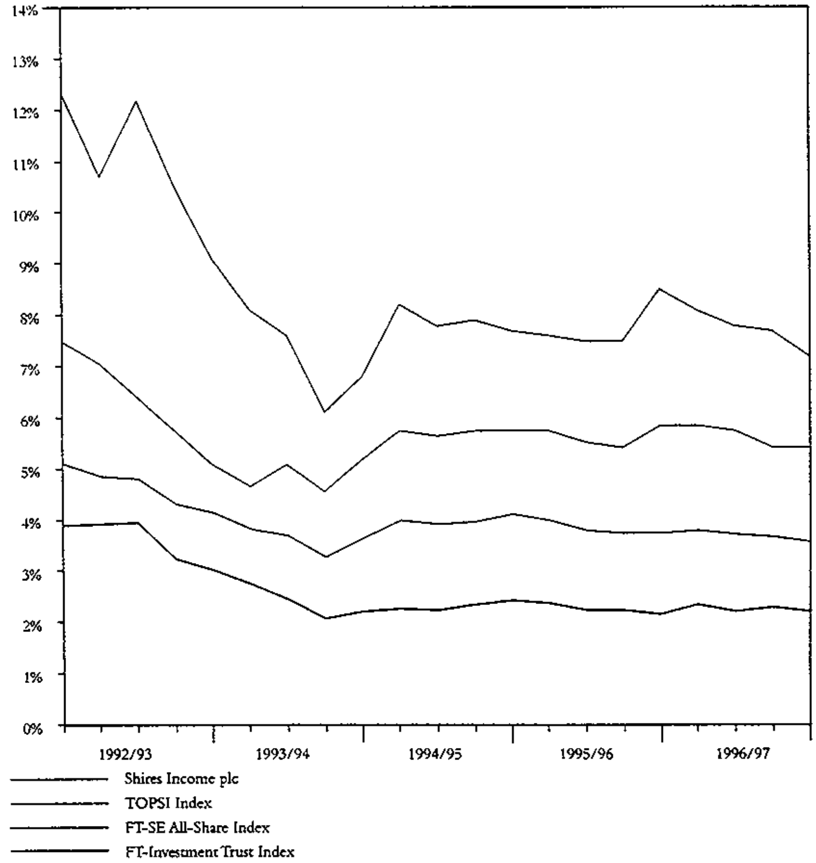
*Before restatement.

†Restated for introduction of Statement of Recommended Practice for Investment Trust Companies (see note 1(h) on page 17).

CAPITAL

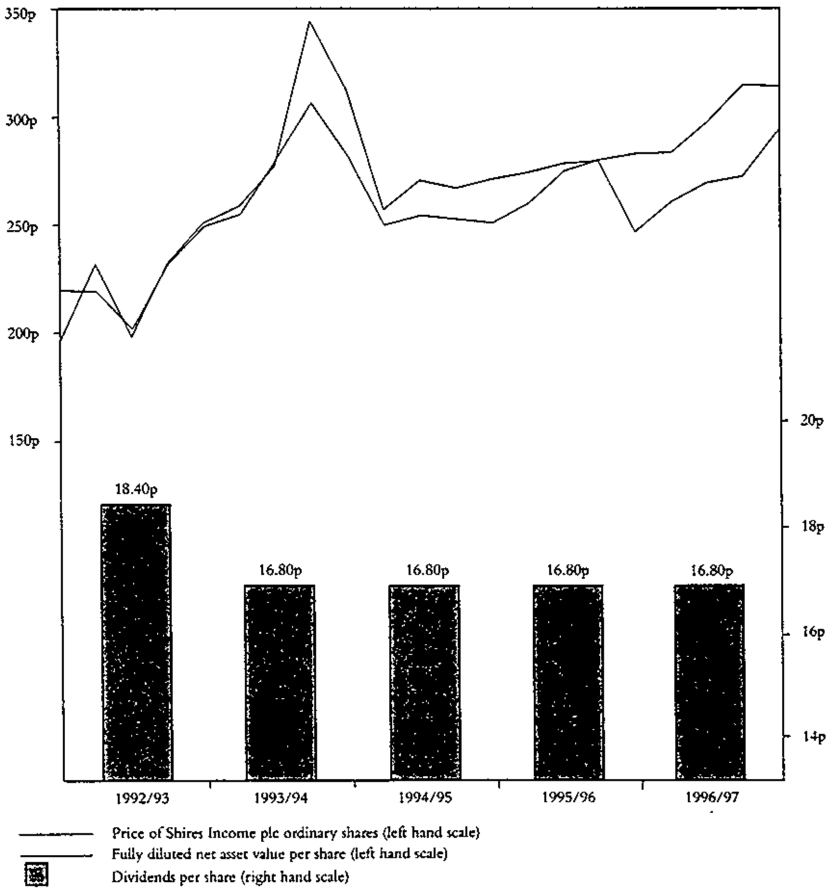
Year ended 31 March	Issued ordinary shares £000	Ordinary shareholders' funds £000	Net Asset Value (pence per ordinary share) undiluted	Net Asset Value (pence per ordinary share) fully diluted
1988	7,826	41,892	267.7	234.0
1989	7,913	47,505	300.2	251.7
1990	8,132	46,720	287.3	247.4
1991	10,573	55,064	260.4	242.5
1992	11,642	53,115	228.1	221.4
1993	12,609	65,496	259.7	250.4
1994	13,500	78,900	292.2	284.4
1995	13,729	70,505	256.8	252.6
1996	13,815	80,578	291.6	285.4
1997	13,947	90,659	325.0	317.6

DIVIDEND YIELD



Data supplied by NatWest Securities and Dresdner Kleinwort Benson

SHARE PRICE, NET ASSET VALUE AND DIVIDENDS



Financial Calendar for 1997/98

1997	
28 May	Annual results announced
4 June	Annual Report published
27 June	Annual General Meeting
31 July	Ordinary Shares final dividend 1996/97
30 September	3.5% Preference Shares half-year dividend
30 September	11% Convertible Unsecured Loan Stock half-year interest
31 October	Ordinary Shares first interim dividend 1997/98
20 November	Interim results announced
24 November	Interim Report published
1998	
30 January	Ordinary Shares second interim dividend 1997/98
31 March	3.5% Preference Shares half-year dividend
31 March	11% Convertible Unsecured Loan Stock half-year interest
1 April	Conversion date for 11% Convertible Unsecured Loan Stock
30 April	Ordinary Shares third interim dividend 1997/98
May	Annual results announced
May	Annual Report published
June	Annual General Meeting
31 July	Ordinary Shares final dividend 1997/98

Analysis of Shareholders at 31 March 1997

	Shareholders		*Shares held*	
Category	*Number*	*%*	*Number*	*%*
Named individuals	4,153	59.2	8,827,575	31.6
Named individuals in The Glasgow TrustPlan and The Glasgow PEP	994	14.2	1,754,990	6.3
Banks and nominees	1,623	23.1	15,469,878	55.5
Insurance and assurance companies	14	0.2	737,061	2.6
Other institutions	234	3.3	1,103,933	4.0
	7,018	100.0	27,893,437	100.0

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the sixty-ninth Annual General Meeting of the Members of the Company will be held at Hambros Bank Limited, 41 Tower Hill, London EC3N 4HA on Friday 27 June 1997 at 12 noon to transact the following business:

ORDINARY BUSINESS

1. To receive the Directors' Report and audited financial statements for the year ended 31 March 1997.

2. To declare a dividend.

3. To re-elect Mr J. Stubbs as a Director.

4. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

5. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

   That with effect from the time of the passing of this resolution the Directors be unconditionally authorised, pursuant to Section 80 of the Companies Act 1985 ('the Act'), to allot relevant securities (as defined in the Act)

   (i) up to a maximum of 1,419,065 ordinary shares in connection with the conversion of the 11% Convertible Unsecured Loan Stock 2003/2004; and

   (ii) otherwise than under (i) above, up to a maximum nominal amount of £4,704,885,

   to such persons and at such times and on such terms as they think proper during the period of five years from the date of the passing of this resolution and at any time thereafter pursuant to any offer or agreement made by the Company before the expiry of this authority so that all previous authorities of the Directors pursuant to the said Section 80 be and they are hereby revoked.

6. To consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution:

   That subject to the passing of the previous resolution the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash in accordance with any authority conferred on them to allot relevant securities (as defined in Section 80 of the Act) as if subsection 89(1) of the Act did not apply to any such allotment; and references in this resolution to the allotment of equity securities shall include references to the grant of a right to subscribe for, or to convert any securities into, relevant shares (as defined in Section 94 of the Act) provided that this power shall be limited

   (i) to the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory; and

Notice of Annual General Meeting

(ii) to the allotment (otherwise than pursuant to (i) above) of ordinary shares up to an aggregate nominal amount of £705,733 at a price per share not less than the fully diluted net asset value of an ordinary share in the Company calculated as at the close of business on the immediately preceding business day,

and shall expire, unless renewed, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

BY ORDER OF THE BOARD

for Glasgow Investment Managers Limited
Secretaries

4 June 1997

Note

A member of the Company entitled to attend and vote may appoint a proxy to attend and on a poll vote in place of him. A proxy need not be a member of the Company. A form of proxy is enclosed which, if required, should be completed in accordance with the instructions thereon. Completion and return of the proxy will not preclude a member from attending and voting in person.

The Glasgow TrustPlan

The Glasgow TrustPlan is an investment trust savings scheme which provides private investors with a simple and economical method of investing directly in Shires Income plc, Glasgow Income Trust plc and Shires Smaller Companies plc, the investment trusts managed by Glasgow Investment Managers Limited.

The Glasgow TrustPlan allows investors to save in the following ways:

- regular monthly contributions—minimum £20 per month
- occasional lump sum payments—minimum £200
- reinvestment of dividends and interest from the participating investment trusts.

The Glasgow PEP

The Glasgow PEP is a personal equity plan which offers the opportunity to invest up to £6,000 annually in Shires Income plc, Glasgow Income Trust plc and Shires Smaller Companies plc.

Investment in The Glasgow PEP can be made:

- by regular monthly payments—minimum £50 per month
- by lump sum payments—minimum £1,000.

Income is paid out quarterly or reinvested.

Further information on The Glasgow TrustPlan and The Glasgow PEP may be obtained from:

Glasgow Investment Managers Limited
Sutherland House
149 St Vincent Street
Glasgow
G2 5DR
Telephone 0141-572 2700
or FREEFONE 0800 435 797

Glasgow Investment Managers Limited
(regulated by IMRO)

The investment portfolio of Shires Income plc is managed by Glasgow Investment Managers Limited, a subsidiary of the Company.

Glasgow Investment Managers also manages investment portfolios for:

- Glasgow Income Trust plc
- Shires Smaller Companies plc
- Glasgow Integrated Pension Scheme Investments
- Tunbridge Wells Equitable Friendly Society

and for pension schemes and corporate clients.