Shires Income plc

ANNUAL REPORT 1998

MANAGED BY

GLASGOW

INVESTMENT MANAGERS

CONTENTS

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 1998	As at 31 March 1997	% change
Net assets attributable to ordinary shareholders	£134.29m	£90.66m	+48.1
Fully diluted net asset value per ordinary share	462.5p	317.6p	+45.6
Ordinary share price	424.5p	293.5p	+44.6
Net dividends per ordinary share	17.50p	16.80p	+4.2

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*	152.51	219.48	257.50
TOPSI-100 Index†	144.75	203.66	254.94
FTSE All-Share Index	136.47	202.71	239.96

	As at 31 March 1998	As at 31 March 1997
Gross dividend yield		
Shires Income plc▾	5.2%	7.2%
TOPSI-100 Index†	4.6%	5.5%
FTSE All-Share Index	2.8%	3.6%

* Source: Glasgow Investment Managers Limited.

† Source: Dresdner Kleinwort Benson.

▾ Based on share price and gross dividend at the financial year end.

Chairman's Statement

John Izat

Investment Returns

I am very pleased to be able to report on a year of substantial progress for the Company. The total return, including income and capital, on fully diluted net assets was 52.5%, which compared with returns of 36.5% on the FTSE All-Share Index and 44.8% on the TOPSI-100 Index of high-yielding ordinary shares.

Background

This performance was achieved against a background of rising ordinary share prices in the UK. Although manufacturing output remained depressed by the impact of sterling appreciation and consumption expenditure grew more slowly from the fourth quarter of 1997, merger and acquisition activity and share repurchases made additional liquidity available to investors while at the same time reducing the supply of equities in which to invest.

Earnings and Dividends

Earnings per share at 20.25p were up 24.8% on last year. While income from investments rose only a little, dealing profits and traded option premiums were higher and the contribution from Glasgow Investment Managers continued to grow.

A final dividend of 4.9p per ordinary share is recommended by the Board, bringing total dividends for the year to 17.5p, a rise of 4.2% on the total last year and the first increase since the dividend was reduced in 1994.

Long Term Strategy

The Company's long term strategy - to increase the capacity of the portfolio to provide growth of capital and income by raising its exposure to equities, while maintaining a high level of income to shareholders - which I outlined in last year's Annual Report, is proving successful.

Over the five years to 31 March 1998 the total return on the Company's net assets was 157.5%, the highest return of any conventional investment trust, i.e. excluding those investing in other investment trusts' securities, in the High Income category of the monthly information service of the Association of Investment Trust Companies. It was also higher than the returns of all the trusts in the UK Income Growth category, where the average yield was 3.7% at 31 March 1998, well below the yield of 5.2% on the ordinary shares of Shires Income.

Share Price Rating

The discount of share price to underlying net assets at 31 March 1998 was 8.2%, marginally above the discount of 7.6% at the end of last year. As a result, the total return to shareholders, at 52.1%, was close to the return on the net assets.

There have been periods in the recent past, however, when the return to shareholders has been reduced by the widening of the discount. Aware that its responsibilities to shareholders include maintaining the market value of their investment, the Board is making proposals which, if approved, will authorise the Company to purchase its own shares. Details of these proposals are contained in the separate circular accompanying this report. Such action will become more attractive when Advance Corporation Tax (ACT) is abolished in April 1999. At present ACT is payable on the difference between the price at which shares are repurchased and their average issue price.

Chairman's Statement

(Continued)

Portfolio Profile and Benchmark

The Company employed gearing throughout the year to maintain a high exposure to equities, supplementing the Index-Linked Debenture Stock with short term variable rate borrowing. The rise in the value of the portfolio, however, reduced the ratio of borrowing to net assets from 30.0% to 21.4% over the year.

Ordinary shares represented 104.8% of net assets at 31 March 1998. As equity investments have exceeded shareholders' funds for over two years and are likely to continue to do so under the investment strategy which the Company is following, the Board considers that the FTSE All-Share Index is now a more appropriate benchmark for the Company's investment performance than the TOPSI-100 Index of high-yielding ordinary shares. It is also more widely recognised among investors.

Glasgow Investment Managers

Funds under management by this subsidiary rose to £580 million in the course of the year, due partly to a buoyant UK stockmarket and partly to new business gained. Earnings also grew, contributing £659,000 to the Company's pre-tax income before minority interests.

Outlook

Although the economy already appears to be expanding more slowly and weaker earnings growth is forecast, company finances remain healthy and should support continued dividend growth at a rate above inflation. After the broadly-based rise in the first quarter of this year it seems likely that the UK stockmarket is entering a period of consolidation. Subsequently, however, as slower growth removes the threat of inflation, interest rates are expected to fall, stimulating further progress in share prices.

John Hart

Chairman

Investment Managers' Review

Background

The strong performance from UK financial assets over the year to 31 March 1998 may be attributed to the following factors:-

- The new government's announcement of economic policies designed to curb government borrowing and ensure that inflation remains at historically low levels was welcomed by the gilt-edged market. Falling gilt yields supported rising equity valuations.
- The balance of supply and demand for financial assets supported high ratings. Tight fiscal policy reduced the supply of new gilt-edged securities while cash take-overs, share re-purchases, special dividends and a lack of rights issues restricted the supply of equities.
- The healthy economic background encouraged foreign demand for UK assets. This interest was concentrated on large capitalisation stocks and resulted in a divergence in performance between them and smaller companies. Over the year the FTSE 100 Index produced a total return of 41.6% which contrasted with the 16.9% return from the FTSE SmallCap Index.

Sterling continued to appreciate in response to government economic policy and foreign investment inflows, rising by 13.1% relative to the Deutsche Mark. The strength of the currency eroded the competitiveness of UK manufacturing companies, however, and the General Industrials sector performed poorly relative to the Consumer Goods, Utilities and Financials sectors.

Portfolio

Total borrowing rose in value from £28.3 million to £29.4 million but, because of the rise in security prices, gearing fell from 29.8% to 21.3%. Exposure to equities fell from 110.1% to 104.8% of net assets and to fixed income securities from 18.7% to 15.9%.

Equities

Investment policy focused on the ordinary shares of companies with visible earnings and dividend growth potential. Exposure to Financials and Consumer Goods was raised and investment in General Industrials reduced.

- In the Resources group the holding in Shell was increased. The company has scope to enhance shareholder value by cutting costs and its healthy balance sheet could finance share re-purchases.
- Activity within General Industrials included the sale of Caradon in anticipation of a downturn in European demand, while Redland was taken over by Lafarge. Concern about the impact of Sterling strength on both the competitiveness of British exports and the translated value of overseas profits was the reason for reducing the holdings in ICI, BTR, Tomkins and TI Group. British Aerospace was sold.
- In Consumer Goods a new holding in Diageo was purchased. Diageo was formed from the merger of Guinness and Grand Metropolitan and is now the leading group in the global spirits market with excellent growth prospects. A new holding in Northern Foods was also purchased, on the announcement that the Express Dairies division was to be floated off.
- Pharmaceutical companies have good prospects of earnings growth. The holdings in SmithKline Beecham and Zeneca were increased and a new holding in Glaxo Wellcome purchased.
- As Tobacco stocks have been out of favour because of litigation in the USA they offer yields well above the stockmarket average. New holdings in BATS and Gallaher were acquired.
- In the Services group the Airtours holding was increased as the company's overseas expansion should contribute to earnings growth. This was financed by the sale of Granada. After a period of poor relative performance Bass offered good value and was added to the portfolio. A new holding in Railtrack was also purchased, as the company should benefit from the government's transport policy. British Telecom performed well and this investment was reduced while a new holding in Orange, the mobile phone operator, was purchased. Mobile phone usage is expected to grow steadily.
- Within Utilities BG and Centrica were reduced as the strong relative performance had discounted the medium term prospects for both companies. Yorkshire Electricity was taken over and PowerGen was sold due to regulatory concerns. The holdings in British Energy and Scottish Power were increased. British Energy was underpriced when floated and Scottish Power is well placed to benefit from the introduction of competition to the gas and electricity markets.
- Exposure to Retail Banking was raised through a new purchase of HSBC which had performed poorly during the South East Asian crisis. The holding in NatWest Bank was increased as the

Investment Managers' Review

(Continued)

company should benefit from selling off its weaker divisions. The investment in Lloyds TSB was reduced after a period of good performance.

- In the Life Assurance sector, Britannic Assurance was purchased as a settlement with the Department of Trade and Industry, whereby some of the companies' "orphan assets" – unclaimed policy holders' funds – were reallocated to shareholders' funds, brings the prospect of dividend growth of 20% per annum. In Composite Assurance the investment in Royal & Sun Alliance was increased as the merger will result in savings for the combined group.

Convertibles

The Kleinwort Benson COSI-80 Index of leading convertible stocks produced a total return of 22.4%, well below the return from UK equities. Exposure to convertibles was reduced from 10.3% to 7.0%. BPB Loan was sold and British Land Preference was converted into ordinary shares. The holding of British Aerospace Preference was increased.

Fixed Interest

Conventional long-dated fixed interest securities offer a high real yield, i.e. after adjusting for inflation. Yields are expected to fall as the establishment of the Monetary Policy Committee, which effectively granted operational independence to the Bank of England, should bring effective control of inflation and the shrinking budget deficit result in smaller issues of new gilt-edged stock. Exposure to fixed interest rose marginally, from 8.4% to 8.9%. A holding in 8% Treasury 2021 was purchased.

Traded Option Writing

Additional income is generated from the portfolio by writing covered out-of-the-money call options against holdings of ordinary shares and put options against uninvested cash resources, taking the premiums thus earned to the revenue account. Writing such options involves exposure to the risk that a capital cost may be incurred if the option moves into the money, i.e. if the share price rises above the strike price of a call option or falls below the strike price of a put option, and the option is exercised. This activity is governed by strict guidelines designed to minimise its impact on the capital performance of the portfolio.

Outlook

With the rates of economic growth and inflation forecast to fall in 1998 a scenario is developing in which short-term interest rates may be reduced. Looser monetary policy should permit Sterling to depreciate, enhancing the competitiveness and prospects for UK manufacturing industry. These developments will stimulate activity, which is expected to accelerate in the second half of 1999 as a result. On most criteria UK equities appear fairly valued and prospects for the stockmarket remain favourable, although progress may be slower in the short term after the recent period of strong performance.

The formation of the European single currency is likely to be accompanied by further convergence of European interest rates. Although the UK is not a founder member of EMU the government appears to be preparing for eventual membership, which would help lower the level and volatility of UK inflation and interest rates and improve confidence in equity and fixed interest markets.

Zeneca – the global science company

Airtours – one of the UK's leading leisure companies

The Batimat trade exhibition sponsored by Miller Freeman, a division of United News & Media

Largest 30 Holdings

at 31 March 1998

	Market value £000	% of portfolio
ASSOCIATED UNDERTAKING		
Shires Smaller Companies (see note)	12,262	7.4
OTHER ORDINARY		
Zeneca	7,076	4.3
Compass	6,973	4.2
Airtours	6,431	3.9
Legal & General	5,516	3.3
British Telecommunications	4,875	2.9
Provident Financial	4,792	2.9
British Energy	4,727	2.8
United News & Media	4,706	2.8
Royal & Sun Alliance	4,638	2.8
Scottish Power	3,938	2.4
Sun Life & Provincial	3,905	2.3
General Electric	3,904	2.3
Orange	3,808	2.3
Abbey National	3,693	2.2
SmithKline Beecham	3,519	2.1
Shell	3,512	2.1
Ocean Group	3,257	2.0
Railtrack	3,185	1.9
BG	3,135	1.9
Lloyds TSB	2,789	1.7
Prism Rail	2,754	1.7
Severn Trent	2,693	1.6
Northern Foods	2,628	1.6
Britannic Assurance	2,555	1.5
Unigate	2,546	1.5
National Westminster Bank	2,297	1.4
TI Group	2,098	1.3
CONVERTIBLES		
British Aerospace 7.75p pref	5,405	3.2
FIXED INTEREST		
Treasury 8% Stock 2021	2,555	1.5
	126,172	75.8

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 1997		Movements during the year			Valuation at 31 March 1998	
			Purchases	Sales	Appreciation		
	£m	%	£m	£m	£m	£m	%
ASSOCIATED UNDERTAKING							
Shires Smaller Companies	10.4	*11.1*	-	-	1.9	12.3	*8.9*
OTHER LISTED INVESTMENTS							
Ordinary shares	93.3	*99.0*	51.6	(52.8)	39.4	131.5	*95.9*
Convertibles	9.7	*10.3*	0.9	(1.4)	0.4	9.6	*7.0*
British government securities	-	-	2.5	-	-	2.5	*1.9*
Other fixed interest	7.9	*8.4*	1.0	(1.7)	2.4	9.6	*7.0*
	121.3	*128.8*	56.0	(55.9)	44.1	165.5	*120.7*
Unlisted investments	1.0	*1.0*	-	-	(0.1)	0.9	*0.6*
	122.3	*129.8*	56.0	(55.9)	44.0	166.4	*121.3*
Tangible fixed assets	0.3	*0.3*				0.2	*0.2*
Net current liabilities	(7.8)	*(8.3)*				(8.1)	*(5.9)*
TOTAL ASSETS							
(less current liabilities)	114.8	*121.8*				158.5	*115.6*
Index-Linked Debenture Stock	(20.5)	*(21.7)*				(21.3)	*(15.5)*
Minority equity interest	(0.1)	*(0.1)*				(0.1)	*(0.1)*
NET ASSETS	94.2	*100.0*				137.1	*100.0*
Representing:							
Share capital and reserves	90.7					134.3	
Convertible Unsecured Loan Stock	3.5					2.8	
	94.2					137.1	

Analysis of Portfolio

	United Kingdom %	North America %	1998 Total %	1997 Total %
EQUITIES AND CONVERTIBLES				
Mineral extraction	2.2	-	2.2	1.4
General industrials	12.1	-	12.1	22.8
Consumer goods	14.1	-	14.1	5.9
Services	20.1	-	20.1	23.4
Utilities	15.5	-	15.5	14.7
Financials	20.3	-	20.3	15.9
Investment trusts	7.9	-	7.9	8.6
	92.2	-	92.2	92.7
FIXED INTEREST STOCKS	7.3	-	7.3	6.5
UNLISTED INVESTMENTS	0.2	0.3	0.5	0.8
TOTAL PORTFOLIO				
- 31 MARCH 1998	99.7	0.3	100.0%	
- 31 MARCH 1997	99.4	0.6		100.0%

Directors

Directors

A. John R. Izat (Chairman)
Age 65. Joined the Board in 1988 and elected Chairman in 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 56. Joined the Board in 1996. Partner in Chiene & Tait, Chartered Accountants. Director of Investors Capital Trust PLC, The Scottish Life Assurance Company and a number of other companies.

John A. D. Harrison O.B.E.*
Age 66. Joined the Board in 1995. Chairman of Johnstons of Elgin Limited and a member of the Highlands and Islands Enterprise Board. Director of the North of Scotland Board of the Bank of Scotland and other companies.

John Stubbs*
Age 54. Joined the Board in 1985. Director and Chief Investment Officer of Friends 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: 0870 6015366

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 1997 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.

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 1998 appear on pages 13 to 31.

A final dividend of 4.9p per share is proposed which, together with the interim dividends already paid, takes the total dividends for the year to 17.5p per share (1997 - 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 26.8% interest in Shires Smaller Companies plc, a listed investment trust (see note 13 to the financial statements).

Review of the Business

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

Directors

The Directors are shown on page 8. All held office throughout the year. M. S. Hardie, having attained the age of 70, retired on 27 June 1997.

J. M. Haldane retires by rotation and, being eligible, offers himself for re-election.

Directors' Interests in Shares

The interests of the Directors in office at 31 March 1998 in the capital of the Company were as follows:

	Beneficial Interest		Non-Beneficial Interest	
	31 March 1998	31 March 1997	31 March 1998	31 March 1997
Ordinary shares of 50p each				
J. M. Haldane	2,000	2,000	720	-
J. A. D. Harrison	4,000	4,000	-	-
A. J. R. Izat	23,707	21,937	8,100	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.

A. J. R. Izat's beneficial interest has increased by two ordinary shares during the period 1 April 1998 to 15 May 1998 as a result of standing arrangements for the reinvestment of dividends from shares held through The Glasgow PEP.

There have been no other changes in the Directors' interests between the year end and 15 May 1998.

Report of the Directors

(Continued)

Corporate Governance

The Board currently comprises four 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). A. J. R. Izat is a non-executive Director of GIM.

In the Board's view the Company complied throughout the year with all the requirements of the Cadbury Committee's Code of Best Practice.

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, which are registered in the name of a nominee company. 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 paragraphs of the Cadbury Code of Best Practice 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 1998, the amount of the Company's outstanding trade creditors was equivalent to 4 days of management expenses for the year ending on that date (1997 - 18 days). This excludes creditors in respect of investment activities.

Substantial Interests

As at 15 May 1998 the Company had received notification of the following interests in its ordinary shares:

	Number of shares	% of total
Sun Life and Provincial Holdings plc, a subsidiary of AXA S.A.	3,010,662	10.6

Report of the Directors

(Continued)

Share Capital

During the year, 335,871 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 £504,000. Since the year end, 97,384 ordinary shares have been issued on the conversion of £194,769 of the Convertible Unsecured Loan Stock.

Year 2000

All companies in the Group are dependent on the information systems of the Managers, Glasgow Investment Managers Limited, and those of counterparties to whom certain functions are delegated.

During the year, the Manager's systems were examined by external consultants to identify hardware and software potentially non-compliant with the year 2000. Hardware found to be non-compliant was upgraded or replaced. This action would have been undertaken in any case in order to keep pace with technical developments. No potential software non-compliance problems were found.

All counterparties were checked for compliance. All were found to be either compliant or in the process of upgrading to achieve compliance.

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.

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 2002, 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 £708,167 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 1998

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: and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 31.

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 1998 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 1998

Consolidated Statement of Total Return

(incorporating the Revenue Account*)
for the year ended 31 March 1998

	Notes	1998 Revenue £000	1998 Capital £000	1998 Total £000	1997 (as restated per note 1(b)) Revenue £000	1997 Capital £000	1997 Total £000
Gains on investments	11	-	41,707	41,707	-	9,365	9,365
Income from investment activity	2	7,993	-	7,993	6,879	-	6,879
Investment management income	2	1,903	-	1,903	1,223	-	1,223
Investment management expenses	4	(1,244)	-	(1,244)	(914)	-	(914)
Net income from investment management		659	-	659	309	-	309
Associated undertaking		444	1,876	2,320	377	1,392	1,769
Management and administrative expenses	4	(612)	(253)	(865)	(465)	(213)	(678)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		8,484	43,330	51,814	7,100	10,544	17,644
Finance costs of borrowings	6	1,471	1,147	2,618	1,479	954	2,433
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		7,013	42,183	49,196	5,621	9,590	15,211
Taxation	7	1,225	-	1,225	1,058	(124)	934
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		5,788	42,183	47,971	4,563	9,714	14,277
Preference dividend	9	2	-	2	2	-	2
Minority equity interest		70	-	70	35	-	35
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS		5,716	42,183	47,899	4,526	9,714	14,240
Comprising:							
Surplus for the year		5,416			4,290		
Unrealised profit taken to unrealised revenue reserve	22	300			236		
Dividends on equity shares	9	4,940	-	4,940	4,686	-	4,686
TRANSFER TO/(FROM) RESERVES	23	776	42,183	42,959	(160)	9,714	9,554
Return per ordinary share							
- undiluted	10	20.25p	149.43p	169.68p	16.23p	34.82p	51.05p
- fully diluted	10	19.64p	142.65p	162.29p	15.70p	33.20p	48.90p
Dividends per ordinary share		17.50p			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 the above statement derive from continuing operations.
No operations were acquired or discontinued during the year.

Balance Sheets

as at 31 March 1998

	Notes	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
FIXED ASSETS					
Investments	11	154,163	111,923	154,163	111,923
Subsidiary undertakings	12	-	-	646	646
Associated undertaking	13	12,262	10,389	12,262	10,389
Tangible assets	14	241	276	-	-
		166,666	122,588	167,071	122,958
CURRENT ASSETS					
Debtors	15	7,326	2,300	7,058	3,346
Dealing investments held by subsidiary undertakings	16	512	1,804	-	-
Cash at bank and in hand		2,152	484	1,261	31
		9,990	4,588	8,319	3,377
CREDITORS					
Amounts falling due within one year	17	18,035	12,342	17,305	11,554
NET CURRENT LIABILITIES		(8,045)	(7,754)	(8,986)	(8,177)
TOTAL ASSETS LESS CURRENT LIABILITIES		158,621	114,834	158,085	114,781
CREDITORS					
Amounts falling due after more than one year (including convertible debt)	18	24,132	24,046	24,132	24,046
MINORITY EQUITY INTEREST		149	79	-	-
NET ASSETS		**134,340**	**90,709**	**133,953**	**90,735**
CAPITAL AND RESERVES					
Called up share capital	19	14,165	13,997	14,165	13,997
Share premium account	20	18,318	17,865	18,318	17,865
Other capital reserves	21				
Realised		44,738	34,681	42,163	32,751
Unrealised		52,260	20,083	55,280	22,566
Revenue reserves	22				
Realised		4,323	3,847	4,027	3,556
Unrealised		536	236	-	-
SHAREHOLDERS' FUNDS (Including non-equity)	23	**134,340**	**90,709**	**133,953**	**90,735**
Net asset value per ordinary share					
- undiluted	10	475.71p	325.02p		
- fully diluted	10	462.52p	317.62p		

Approved by the Board of Directors on 27 May 1998 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 1998

	Notes	1998 £000	1998 £000	1997 £000	1997 £000
OPERATING ACTIVITIES					
Dividends and interest received					
- from investments			4,646		5,219
- from associated undertaking			325		314
Income tax recovered			72		336
Interest received			67		22
Investment dealing receipts			6,351		3,796
Other cash received			3,086		1,559
Payments to and on behalf of Directors			(48)		(53)
Investment dealing payments			(4,391)		(5,168)
Other cash payments			(1,745)		(1,210)
NET CASH INFLOW FROM OPERATING ACTIVITIES	24		8,363		4,815
SERVICING OF FINANCE					
Interest paid		(1,565)		(1,606)	
Payments of income tax		(282)		(510)	
Preference dividends paid		(2)		(2)	
			(1,849)		(2,118)
CAPITAL EXPENDITURE					
Purchases of investments		(49,160)		(35,042)	
Purchases of tangible fixed assets		(61)		(250)	
Sales of investments		51,262		36,614	
Sales of tangible fixed assets		9		24	
NET CASH INFLOW FROM INVESTING ACTIVITIES			2,050		1,346
EQUITY DIVIDENDS PAID			(4,742)		(4,664)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING			3,822		(621)
FINANCING					
Debt due within one year					
- (decrease)/increase in short-term borrowings			(1,439)		932
INCREASE IN CASH	26		2,383		311

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.

The method of consolidating the results of the Company's investment management subsidiary undertaking changed with effect from 1 April 1997. Previously, this subsidiary's income and expenditure were aggregated with the income and expenditure of the rest of the Group and intra-group items were omitted. The new policy is to show separately the subsidiary's income and expenditure as distinct from the income and expenditure of Shires Income and its dealing subsidiary. This change in accounting policy has had no effect on the results for the year (1997 - no effect).

(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.

Notes to the Financial Statements

(Continued)

(g) Tangible fixed assets and depreciation

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

(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. Premiums received on traded option contracts are recognised as income whenever the options expire or are exercised. Gains and losses on the underlying shares acquired or disposed of as a result of options exercised are included in the capital account. Provision is made at the year end for unexpired options where the capital write down would exceed the premiums received.

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.

The investment management fee and finance costs of borrowings are charged 50% to capital and 50% to revenue, net of any tax relief, being the expected long term split of returns in the form of capital gains and income from the Company's entire investment portfolio (see 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.

(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.

Notes to the Financial Statements

(Continued)

(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.

(m) SORP compliance

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 £13,000 higher and the realised capital reserve would have been credited with £13,000 of tax relief.

Notes to the Financial Statements

(Continued)

2. INCOME

PARENT UNDERTAKING AND INVESTMENT DEALING SUBSIDIARY	1998 £000	1997 (as restated per note 1(b)) £000
Income from listed investments		
Franked investment income	5,201	5,278
UK unfranked investment income	160	550
Foreign income dividends	627	122
	5,988	5,950
Income from unlisted investments		
Franked investment income	-	4
Other income from investment activity		
Interest receivable	29	13
Traded option premiums	1,206	300
Underwriting commission	-	55
Profits less losses of dealing subsidiary*	770	557
	2,005	925
	7,993	6,879
INVESTMENT MANAGEMENT SUBSIDIARY		
Investment management fees	1,867	1,209
Interest receivable	36	14
	1,903	1,223
Total Group income comprises:		
Dividends	5,988	5,954
Interest	65	27
Other income from investment activity	1,976	912
Investment management fees	1,867	1,209
TOTAL INCOME	9,896	8,102

Franked investment income from listed investments includes special dividends totalling £437,000 (1997 - £328,000).

All dividend income was received from UK companies.

* This includes a net profit of £300,000 (1997 - £236,000) on the sale of investments by the dealing subsidiary to Shires Income.

Notes to the Financial Statements

(Continued)

3. MANAGEMENT AND SECRETARIAL 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 1998 was £531,000 (1997 - £451,000). £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. The Company also pays GIM an annual fee of £12,000 for services in relation to the Company's participation in The Glasgow PEP. No VAT is payable on these fees as the Company and GIM are both members of the same VAT group registration. At 31 March 1998 the amount of such fees owed to GIM was £151,000 (1997 - £118,000).

4. MANAGEMENT AND ADMINISTRATIVE EXPENSES

	1998 £000	1997 £000
Administrative expenses paid by the Group include:		
Directors' remuneration - fees as directors (see note 5)	47	55
Auditors' remuneration		
- parent undertaking	15	12
- subsidiary undertakings	6	5
Fees payable to auditors and associates for other services	21	12
Depreciation	87	49
Operating lease charges	69	68

5. EMPLOYEE COSTS AND DIRECTORS' REMUNERATION

The Company had no direct employees (1997 - Nil). Glasgow Investment Managers Limited had 19 employees during the year (1997 - 16). Total group employee costs (including Directors of the Company) were:

	1998 £000	1997 £000
Wages and salaries	891	685
Social Security costs	90	72
Other pension costs	103	70
	1,084	827

The aggregate emoluments of Directors was £47,000 (1997 - £55,000) and includes £9,000 (1997 - £12,000) paid by a subsidiary undertaking.

The highest paid Director received a total of £18,000 (1997 - £16,275) and includes £6,000 (1997 - £7,000) paid by a subsidiary undertaking.

No pension contributions were paid for Directors (1997 - Nil).

Notes to the Financial Statements

(Continued)

6. FINANCE COSTS OF BORROWINGS

	1998 Revenue £000	1998 Capital £000	1998 Total £000	1997 Revenue £000	1997 Capital £000	1997 Total £000
Bank loans and overdrafts repayable within five years	233	233	466	235	235	470
5% Index-Linked Debenture Stock 2008/2010	1,082	758	1,840	1,051	526	1,577
11% Convertible Unsecured Loan Stock 2003/2004	156	156	312	193	193	386
	1,471	1,147	2,618	1,479	954	2,433

7. TAXATION

	1998 Revenue £000	1998 Capital £000	1998 Total £000	1997 Revenue £000	1997 Capital £000	1997 Total £000
Tax on franked investment income	1,040	-	1,040	1,057	-	1,057
Adjustments in respect of previous year	(37)	-	(37)	(74)	(124)	(198)
Movement in provision for advance corporation tax	100	-	100	-	-	-
	1,103	-	1,103	983	(124)	859
Share of taxation charge of associated undertaking	122	-	122	75	-	75
	1,225	-	1,225	1,058	(124)	934

8. REVENUE ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The revenue attributable to members includes £5,413,000 (1997 - £4,253,000) which has been dealt with in the Company's financial statements.

9. DIVIDENDS

	1998 p	1997 p	1998 £000	1997 £000
Ordinary shares				
Interims paid	8.4	8.3	2,371	2,315
Interim payable	4.2	4.2	1,186	1,172
Proposed final	4.9	4.3	1,383	1,199
	17.5	16.8	4,940	4,686
Cumulative preference shares			2	2

Notes to the Financial Statements

(Continued)

10. RETURN AND NET ASSET VALUE PER ORDINARY SHARE

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

	1998	1997
Revenue return	£5,716,000	£4,526,000
Capital return	£42,183,000	£9,714,000
Weighted average number of ordinary shares	28,229,308	27,893,437

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 31% (1997 - 33%). The figures used for the fully diluted returns per ordinary share were as follows:

	1998	1997
Adjusted revenue return	£5,824,000	£4,655,000
Adjusted capital return	£42,292,000	£9,843,000
Weighted average number of ordinary shares	29,648,374	29,648,374

Undiluted net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £134,290,000 (1997 - £90,659,000) and on the 28,229,308 (1997 - 27,893,437) ordinary shares in issue at 31 March 1998.

Fully diluted net asset value per ordinary share is based on adjusted net assets attributable to ordinary shareholders of £137,128.000 (1997 - £94,169,000) and on 29,648,374 ordinary shares (1997 - 29,648,374), being the number of shares which would be in issue if all of the outstanding Loan Stock was converted.

11. INVESTMENTS

	Group and Company	
	1998	1997
	£000	£000
Listed on stock exchanges:		
In the United Kingdom	153,265	110,876
Overseas	27	24
	153,292	110,900
Unlisted	871	1,023
	154,163	111,923

Notes to the Financial Statements

(Continued)

11. INVESTMENTS (continued)

	Group			Company		
	Listed investments £000	Unlisted investments £000	Total £000	Listed investments £000	Unlisted investments £000	Total £000
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
Purchases	56,002	-	56,002	56,545	-	56,545
Sales - proceeds	(55,832)	(63)	(55,895)	(56,270)	(63)	(56,333)
- net gains/(losses) on sales	10,857	(53)	10,804	10,814	(53)	10,761
Movement in unrealised appreciation/ (depreciation) during the year	31,365	(36)	31,329	31,303	(36)	31,267
Valuation at 31 March 1998	153,292	871	154,163	153,292	871	154,163
Cost at 31 March 1998	103,560	1,846	105,406	103,622	1,846	105,468
Unrealised appreciation/(depreciation) at 31 March 1998	49,732	(975)	48,757	49,670	(975)	48,695
Valuation at 31 March 1998	153,292	871	154,163	153,292	871	154,163

Gains on investments

	Group	
	1998 £000	1997 £000
Net realised gains/(losses) on sales of investments	10,804	(87)
Movement in unrealised appreciation/(depreciation) of investments	31,329	9,464
Movement in unrealised depreciation of traded options	(426)	(12)
	41,707	9,365

The above movements include a difference of £621,000 between the market value and strike price of shares purchased as a result of put options assigned during the year.

The investment portfolio at the year end includes shares valued at £8,422,000 which are subject to call options written.

At 31 March 1998 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
Hafod Quarries Limited (formerly 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	14.7%

Notes to the Financial Statements

(Continued)

12. SUBSIDIARY UNDERTAKINGS

	£000
Cost and Net Book Value:	
At 31 March 1997 and 31 March 1998	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 1998 the Company had a 26.8% (1997 - 26.9%) 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 1998 the investment in Shires Smaller Companies ordinary shares had a market value of £9,614,000 (1997 - £8,042,000). Shires Smaller Companies had 19,522,522 (1997 - 19,490,295) ordinary shares in issue at 31 March 1998.

Dividends receivable from Shires Smaller Companies (excluding the related tax credits) for the year to 31 March 1998 amounted to £325,000 (1997 - £314,000).

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 1997	5,383
Retained revenue	(3)
Net movements on capital reserves	1,876
At 31 March 1998	7,256
Net Asset Value:	
At 31 March 1998	12,262
At 31 March 1997	10,389

Notes to the Financial Statements

(Continued)

Company

	£000
Cost:	
At 31 March 1997 and 31 March 1998	5,239
Increase in net asset value:	
At 31 March 1997	5,150
Increase during year	1,873
At 31 March 1998	7,023
Net Asset Value:	
At 31 March 1998	12,262
At 31 March 1997	10,389

14. TANGIBLE ASSETS

Group	Motor vehicles £000	Equipment £000	Leasehold improvements £000	Total £000
At 31 March 1997	145	164	48	357
Additions	12	42	7	61
Disposals	(10)	(37)	-	(47)
At 31 March 1998	147	169	55	371
Aggregate depreciation:				
At 31 March 1997	39	41	1	81
Provided during year	36	40	11	87
Disposals	(10)	(28)	-	(38)
At 31 March 1998	65	53	12	130
Net Book Value:				
At 31 March 1998	82	116	43	241
At 31 March 1997	106	123	47	276

Company

The Company has no tangible fixed assets (1997 - Nil).

Notes to the Financial Statements

(Continued)

15. DEBTORS

	Group		Company	
	1998	1997	1998	1997
Amounts falling due within one year:	£000	£000	£000	£000
Investment sales	5,244	739	5,071	-
Taxation recoverable	235	198	235	198
Accrued income	1,712	1,175	1,275	990
Due from subsidiary undertakings	-	-	467	2,148
Due from associated undertaking	96	90	-	-
Other debtors	39	98	10	10
	7,326	2,300	7,058	3,346

16. DEALING INVESTMENTS HELD BY SUBSIDIARY UNDERTAKINGS

At lower of cost and market value:	Group	
	1998	1997
	£000	£000
Listed on stock exchanges:		
In the United Kingdom	494	1,669
Overseas	18	33
	512	1,702
Unlisted	-	102
	512	1,804

The market value of the listed investments held at 31 March 1998 was £1,161,000 (1997 - £2,992,000).

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Bank loans and overdrafts	6,574	8,728	6,506	8,676
Investment purchases	6,842	322	6,842	-
Advance corporation tax	100	-	100	-
Other taxation	138	85	138	85
Dividends payable and proposed	2,569	2,371	2,569	2,371
Due to subsidiary undertakings	-	-	10	99
Traded options – deferred premiums	491	128	491	128
– provision for unexpired options	437	11	437	11
Other creditors	884	697	212	184
	18,035	12,342	17,305	11,554

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

	Group and Company	
	1998	1997
	£000	£000
11% Convertible Unsecured Loan Stock 2003/2004	2,838	3,510
5% Index-Linked Debenture Stock 2008/2010	21,294	20,536
	24,132	24,046

Notes to the Financial Statements

(Continued)

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 1997 £671,743 of the Loan Stock was converted into 335,871 ordinary shares. A further £194,769 of Loan Stock was converted into 97,384 ordinary shares on 1 April 1998, leaving £2,643,362 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 1998 comprises:

	Group and Company	
	£000	£000
Nominal amount		16,000
Discount on issue	(979)	
Amortisation of discount	417	
		(562)
Index-linked adjustment charged to capital reserve		5,856
		21,294

The movement during the year was as follows:

Amount outstanding at 31 March 1997	20,536
Amortisation of discount (note 20)	51
Index-linked adjustment (note 21)	707
Amount outstanding at 31 March 1998	21,294

Notes to the Financial Statements

(Continued)

19. CALLED UP SHARE CAPITAL

	Authorised		Allotted, Called Up and Fully Paid			
	1998	1997	1998		1997	
	£000	£000	Number	£000	Number	£000
Ordinary shares of 50p each	19,900	19,900	28,229,308	14,115	27,893,437	13,947
3.5% (formerly 5%) cumulative preference shares of £1 each	100	100	50,000	50	50,000	50
	20,000	20,000		14,165		13,997

The only change in called up share capital during the year was the issue of 335,871 new ordinary shares on the conversion of £671,743 of the 11% Convertible Unsecured Loan Stock 2003/2004 on 1 April 1997.

A further 97,384 ordinary shares have since been issued on the conversion of £194,769 of the Loan Stock on 1 April 1998.

20. SHARE PREMIUM ACCOUNT

	£000
At 31 March 1997	17,865
On the conversion of Loan Stock	504
Amortisation of discount on issue of Debenture Stock (note 18)	(51)
At 31 March 1998	18,318

21. OTHER CAPITAL RESERVES

Realised capital reserve

	Group	Company
	£000	£000
At 31 March 1997	34,681	32,751
Net gains/(losses) on sales of investments during year	11,363	10,761
Management fee	(253)	(253)
Finance costs of borrowings:		
Bank loans and overdrafts repayable within five years	(233)	(233)
11% Convertible Unsecured Loan Stock 2003/2004	(156)	(156)
Index-linked adjustment to redemption value of Debenture Stock (note 18)	(707)	(707)
Intra-group transaction realised	43	-
At 31 March 1998	44,738	42,163

At 31 March 1998 £305,000 (1997 - £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.

Notes to the Financial Statements

(Continued)

Unrealised capital reserve

	Group £000	Company £000
At 31 March 1997	20,083	22,566
Movements during the year:		
Fixed asset investments	32,541	31,267
Traded options	(426)	(426)
Increase in value of investment in associated undertaking	-	1,873
Intra-group transaction	62	-
At 31 March 1998	52,260	55,280

The capital reserves are not distributable.

22. REVENUE RESERVE

	Group Realised £000	Group Unrealised £000	Company Realised £000
At 31 March 1997	3,847	236	3,556
Transfer from revenue account	338	438	471
Transfer to realised revenue account	138	(138)	-
At 31 March 1998	4,323	536	4,027

23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £000	1997 £000
Total revenue returns after taxation	5,788	4,563
Minority interests	(70)	(35)
Dividends	(4,942)	(4,688)
Transfer to/(from) revenue reserves	776	(160)
Total capital returns	42,183	9,714
Issue of ordinary shares on conversion of Loan Stock	672	527
Net addition to shareholders' funds	43,631	10,081
Shareholders' funds at 31 March 1997	90,709	80,628
Shareholders' funds at 31 March 1998	134,340	90,709
Equity shareholders' funds	134,290	90,659
Non-equity shareholders' funds	50	50
	134,340	90,709

Notes to the Financial Statements

(Continued)

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

	1998 £000	1997 £000
Net revenue before finance costs and taxation	8,484	7,100
Unrealised profit taken to unrealised revenue reserve	(438)	(236)
Gross dividends received from associated undertaking	406	393
Share of revenue of associated undertaking	(444)	(377)
Investment management fee charged to capital	(253)	(213)
(Increase)/Decrease in accrued income	(543)	337
Decrease/(Increase) in dealing investments	1,292	(1,276)
Decrease/(Increase) in other debtors	621	(798)
Increase in other creditors	211	777
Depreciation	87	49
Losses/(Profits) on sales of fixed assets	4	(20)
Tax on investment income	(1,121)	(1,136)
Income tax credits on unfranked investment income	(15)	(121)
Repayment of UK income tax	72	336
Net cash inflow from operating activities	8,363	4,815

25. ANALYSIS OF CHANGES IN NET DEBT

	At 31 March 1997 £000	Cash flows £000	Other non-cash changes £000	At 31 March 1998 £000
Cash at bank and in hand	484	1,668	-	2,152
Bank overdrafts	(783)	715	-	(68)
Short-term borrowings	(7,945)	1,439	-	(6,506)
11% Convertible Unsecured Loan Stock 2003/2004	(3,510)	-	672	(2,838)
5% Index-Linked Debenture Stock 2008/2010	(20,536)	-	(758)	(21,294)
	(32,290)	3,822	(86)	(28,554)

Notes to the Financial Statements

(Continued)

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

	1998 £000	1997 £000
Increase in cash at bank and in hand	1,668	464
Decrease/(Increase) in bank overdrafts	715	(153)
Increase in cash during the year	2,383	311
Decrease/(Increase) in short-term borrowings	1,439	(932)
Change in net debt resulting from cash flows	3,822	(621)
Conversion of Loan Stock into equity share capital	672	527
Amortisation of discount on issue of Debenture Stock	(51)	(52)
Index-linked adjustment to redemption value of Debenture Stock	(707)	(474)
Change in net debt	3,736	(620)
Net debt at 31 March 1997	(32,290)	(31,670)
Net debt at 31 March 1998	(28,554)	(32,290)

27. COMMITMENTS AND CONTINGENCIES

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Uncalled capital on investments	-	1,020	-	735

At 31 March 1998 a subsidiary undertaking had annual commitments of £63,000 (1997 - £63,000) under a non-cancellable operating lease in respect of land and buildings expiring in the second to fifth years.

28. 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 £102,518 (1997 - £70,000). Contributions totalling £87,933 (1997 - £58,826) 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	Fully diluted	Ordinary dividend (pence)
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
1998	7,013	20.25	19.64	17.50

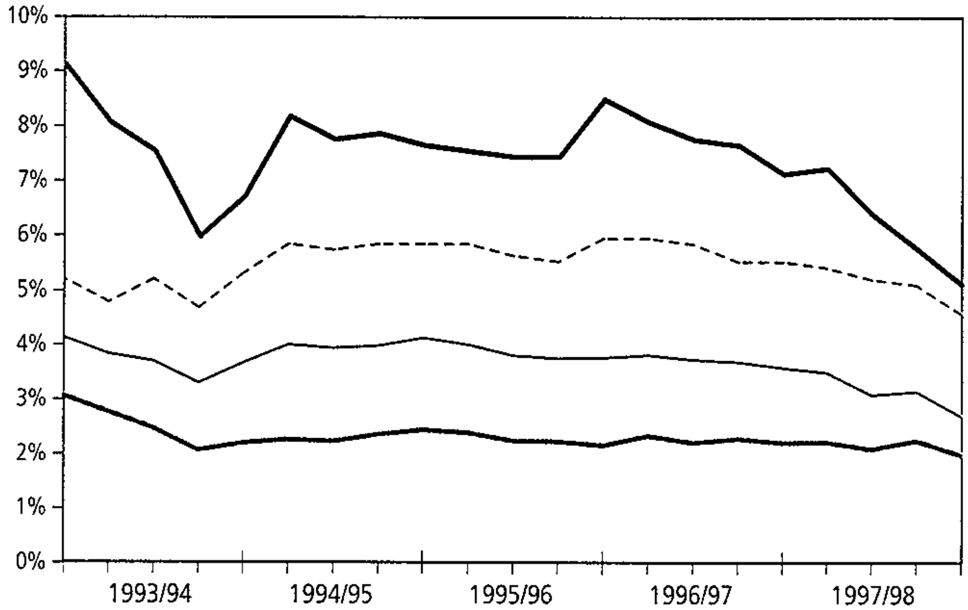
★ Before restatement.

■ Restated for introduction of Statement of Recommended Practice for Investment Trust Companies.

Capital

As at 31 March	Issued ordinary shares £000	Ordinary shareholders' funds £000	Net asset value per ordinary share (pence) Undiluted	Fully diluted
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
1998	14,115	134,290	475.7	462.5

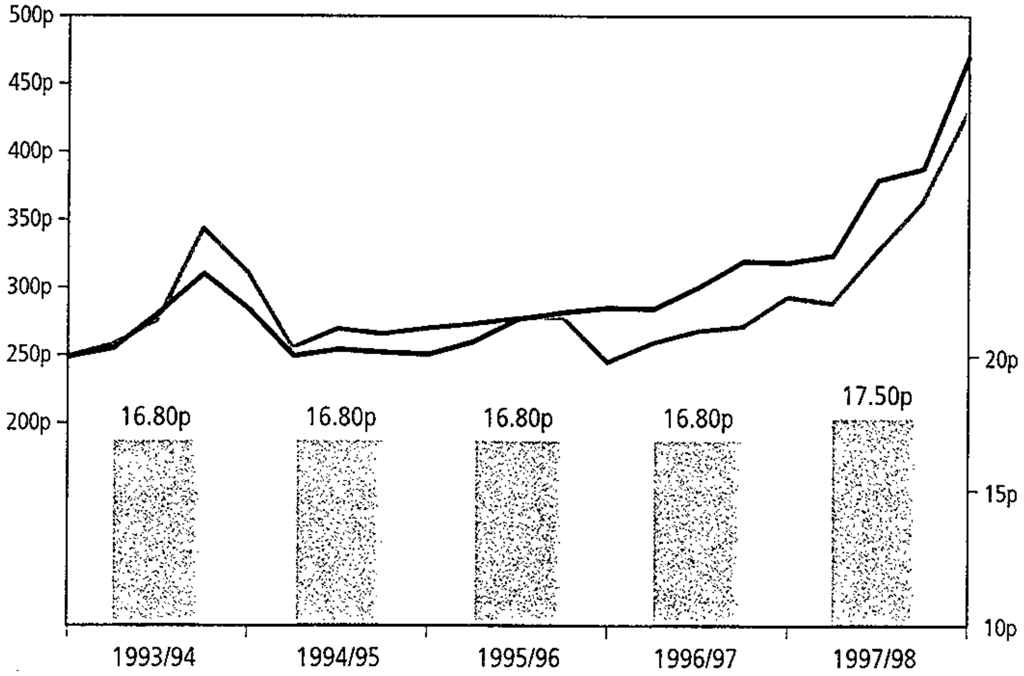
Dividend Yield



Shires Income plc
TOPSI-100 Index
FTSE All-Share Index
FTSE Investment Trust Index

Data Supplied by BT Alex. Brown International and Dresdner Kleinwort Benson

Share Price, Net Asset Value and Dividends



Price of Shires Income plc ordinary shares (left hand scale)

Fully diluted net asset value per share (left hand scale)

Dividends per share (right hand scale)

Financial Calendar for 1998/99

1998	27 May	Annual results announced
	2 June	Annual Report published
	25 June	Annual General Meeting
	31 July	Ordinary Shares final dividend 1997/98
	30 September	3.5% Preference Shares half-year dividend
	30 September	11% Convertible Unsecured Loan Stock half-year interest
	30 October	Ordinary Shares first interim dividend 1998/99
	26 November	Interim results announced
	30 November	Interim Report published
1999	29 January	Ordinary Shares second interim dividend 1998/99
	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 1998/99
	May	Annual results announced
	May	Annual Report published
	June	Annual General Meeting
	30 July	Ordinary Shares final dividend 1998/99

Analysis of Shareholders

at 31 March 1998

	Shareholders		Shares held	
Category	**Number**	**%**	**Number**	**%**
Named individuals	3,966	58.4	8,250,352	29.2
Named individuals in The Glasgow TrustPlan and The Glasgow PEP	1,039	15.3	1,797,948	6.4
Banks and nominees	1,547	22.8	16,459,005	58.3
Insurance and assurance companies	7	0.1	708,284	2.5
Other institutions	230	3.4	1,013,719	3.6
	6,789	100.0	28,229,308	100.0

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the seventieth Annual General Meeting of the Members of the Company will be held at the RSA, 8 John Adam Street, London WC2N 6EZ on Thursday 25 June 1998 at 12 noon to transact the following business:

Ordinary Business

Resolution 1. To receive the Directors' Report and audited financial statements for the year ended 31 March 1998.

Resolution 2. To declare a dividend.

Resolution 3. To re-elect Mr J. M. Haldane as a Director.

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

Special Business

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

Resolution 5. 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 1,321,681 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 £4,721,115,

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.

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

Resolution 6. 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

(Continued)

(ii) to the allotment (otherwise than pursuant to (i) above) of ordinary shares up to an aggregate nominal amount of £708,167 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

Glasgow Investment Managers Limited
Secretaries

2 June 1998

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.