
Company Profile

Objective

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

Benchmark

FTSE All-Share Index.

Capital structure

Number of ordinary shares in issue	29,648,192
3.5% cumulative preference shares of £1 each	£50,000
5% Index-Linked Debenture 2008/2010	£22,441,000
3.4375% Index-Linked Debenture 2017/2019	£14,819,000

Dividends

Dividends on the ordinary shares are payable quarterly at the end of January, April, July and October.

Management Company and Fee

The Company is managed by Glasgow Investment Managers Limited. The management contract is subject to one year's notice of termination. The fee is at 0.45% for funds up to £100 million and 0.40% for funds over £100 million.

PEPs and ISAs

The Company's ordinary shares are available for investment in PEPs and ISAs.



Financial Information

Highlights

	As at 31 March 2000	As at 31 March 1999 (restated)	% change
Total assets less current liabilities	£172.4m	£164.2m	+5.0
Ordinary shareholders' funds	£134.3m	£139.0m	-3.4
Net asset value (NAV) per ordinary share	452.8p	477.7p*	-5.2
Ordinary share price	399.0p	446.0p	-10.5
Discount (ordinary share price to fully diluted NAV)	11.9%	6.6%	
Dividends per ordinary share	18.65p	18.00†	+3.6
Revenue return per ordinary share (undiluted)	19.56p	18.11p	+8.0

* Fully diluted.

† Additionally, a special dividend of 0.65p was paid.

Performance

Total return on £100 with net income reinvested

	1 year £	3 years £	5 years £
Shires Income plc			
- Net asset value	98.7	162.0	228.4
- Share price	93.3	155.9	190.2
TOPSI-100 Index†	104.5	156.3	216.2
FTSE All-Share Index †	109.9	160.1	237.3

	As at 31 March 2000	As at 31 March 1999
Net dividend yield		
Shires Income plc‡	4.7%	4.0%
TOPSI-100 Index†	4.0%	3.4%
FTSE All-Share Index	2.1%	2.3%

† Source: Dresdner Kleinwort Benson.

‡ Based on share price and net dividend for the relevant financial year.

Financial Information

(Continued)

Historical Record

Year ended 31 March	Total assets less current liabilities £m	Ordinary shareholders' funds £m	Net asset value per ordinary share		Share price p	Dividends per share p
			Undiluted p	Fully diluted p		
1991	84.5	55,064	260.4	242.5	239.0	17.80
1992	79.3	53,115	228.1	221.4	199.0	18.40
1993	89.4	65,496	259.7	250.4	252.0	18.40
1994	102.7	78,900	292.2	284.4	311.0	16.80
1995	94.2	70,505	256.8	252.6	272.0	16.80
1996	104.7	80,578	291.6	285.4	248.0	16.80
1997	114.8	90,659	325.0	317.6	293.5	16.80
1998	158.6	134,290	475.7	462.5	424.5	17.50
1999	164.2	138,999†	490.7†	477.7†	446.0	18.00*
2000	172.4	134,252	452.8		399.0	18.65

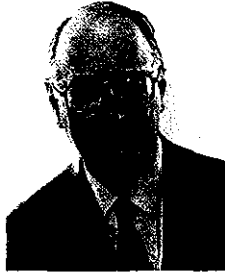
† Restated due to change in traded option income recognition policy (see note 1(h)).

* Additionally, a special dividend of 0.65p per share was paid.

Distribution of Assets

	Valuation at 31 March 1999 (restated)		Movements during the year			Valuation at 31 March 2000	
	£m	%	Purchases £m	Sales £m	Appreciation £m	£m	%
ASSOCIATED UNDERTAKING							
Shires Smaller Companies	10.4	7.3	-	-	2.5	12.9	9.6
OTHER LISTED INVESTMENTS							
Ordinary shares	138.4	97.7	48.3	(41.0)	(8.3)	137.4	102.3
Convertibles	13.7	9.7	-	-	0.8	14.5	10.8
Other fixed interest	9.7	6.8	-	(0.2)	(1.8)	7.7	5.7
	<u>172.2</u>	<u>121.5</u>	<u>48.3</u>	<u>(41.2)</u>	<u>(6.8)</u>	<u>172.5</u>	<u>128.4</u>
Unlisted investments	0.8	0.6	-	(0.4)	0.1	0.5	0.4
	<u>173.0</u>	<u>122.1</u>	<u>48.3</u>	<u>(41.6)</u>	<u>(6.7)</u>	<u>173.0</u>	<u>128.8</u>
Tangible fixed assets	0.3	0.2				0.2	0.2
Net current liabilities	(9.1)	(6.4)				(0.8)	(0.6)
TOTAL ASSETS (less current liabilities)	164.2	115.9				172.4	128.4
Index-Linked Debenture Stock	(22.1)	(15.6)				(37.3)	(27.8)
Minority equity interest	(0.4)	(0.3)				(0.8)	(0.6)
	<u>141.7</u>	<u>100.0</u>				<u>134.3</u>	<u>100.0</u>
NET ASSETS							
Representing:							
Share capital and reserves	139.1					134.3	
Convertible Unsecured Loan Stock	2.6					-	
	<u>141.7</u>					<u>134.3</u>	
NET ASSET VALUE PER SHARE							
- undiluted		490.70p				452.82p	
- fully diluted (note 10)		477.74p					

Chairman's Statement



John Izat

Background

Two themes influenced the behaviour of the UK stockmarket in the year under review. Firstly, in the second and third quarters of 1999 the outlook for UK interest rates dominated market sentiment, initially leading cyclical stocks higher as reductions were announced then depressing the very same sectors as concern about the appearance of inflationary pressures created expectations of higher rates. Secondly, in the fourth quarter of 1999, as investors came to realise that the "millennium bug" would not be a major problem, they became interested in the prospects for telecommunications, media and information technology stocks. The FTSE All-Share Index returned 9.9% over the year to 31 March 2000, of which the Non-Cyclical Service and Information Technology groups of sectors contributed over 7%.

Investment Returns

The Company's Total Return on Net Assets was -1.3%. The main reason for the underperformance relative to the All-Share Index, the Company's benchmark, was that the shares in the Non-Cyclical Service and Information Technology sector groups, which made a substantial contribution to the index return, offered an average yield over the year of 1.0%. The Company's dividend objective restricts the proportion of the portfolio that can be invested in low-yielding equities.

Although it is not the Company's benchmark, the FTSE 350 Higher Yield Index, which offered an average yield of 3.2% over the year, provided a more accurate indication of the performance of the kind of share in which the Company was invested. That index returned -1.7% in the twelve months to 31 March 2000.

The return to shareholders, at -6.7%, was behind the return on net assets because the discount at which the share price stood to net assets widened from 6.6% to 11.9% in the course of the year.

Earnings and Dividends

Earnings per share, at 19.56p, were 8.0% higher than the 18.11p reported last year, due to higher dividend receipts - including special dividends - from equity investments, higher dealing profits and a rise in net income from Glasgow Investment Managers.

A final dividend of 5.75p per ordinary share is being recommended by the Board, to bring total dividends for the year to 18.65p.

Comparison with the level of dividends paid last year is complicated by the fact that total dividends paid then included, as part of the second interim dividend, a Foreign Income Dividend ("FID") and a special dividend, 0.65p, made possible by paying part of the dividend as a FID. Excluding this, total dividends represent a rise of 3.6% over the figure for last year, 18.0p.

Portfolio Profile

In December 1999 the Company issued a further £15 million of Index-Linked Debenture Stock with both the coupon, initially 3.4375%, and the maturity value linked to the movement of the UK Retail Price Index. The Board considered that the first issue of Index-Linked Debenture Stock - in March 1990 - had been a success, providing low cost borrowing in an environment of low inflation, and that the current low yields in the market for gilt-edged index-linked securities represented an opportunity to replace the variable rate short-term bank borrowing which the Company has been employing with less expensive longer term finance.

The proceeds of this issue have been used principally to raise exposure to UK Equity investment, to 111.9% of net assets at 31 March 2000 from 105.0% last year, and to repay bank borrowing. Overall gearing has risen from 22.3% to 29.0% of net assets.

Chairman's Statement

(Continued)

Glasgow Investment Managers ("GIM")

Funds under management by GIM grew to £894 million at 31 March 2000 (1999-£717 million) and profit before tax for the year rose to £1.3 million (1999-£1.0 million).

Last year I advised you that the Company had entered an agreement with the executive shareholders of GIM under which that company's employees would have the opportunity to increase the aggregate of their shareholdings in GIM to a maximum of 50.1% if specified profit targets were achieved. In the year to 31 March 2000 the specified profit target was exceeded and, as a result, the executives' aggregate shareholding in GIM will shortly rise to 50.1%.

The Longer Term

The Company continues to pursue its strategy to combine achievement of growth in capital and income with provision of a high level of income to shareholders. Over the five years to 31 March 2000 the total return on net assets was 128.4%, which compares with a return of 137.3% on the All-Share Index. This was the highest in the High Income category of the Monthly Information Service of the Association of Investment Trust Companies and would have ranked the Company second in the Income Growth category.

At 31 March 2000 the yield on the Company's ordinary shares was 4.7%, well above the yield of 2.1% on the All-Share Index.

As the business of Glasgow Investment Managers expands a growing flow of income from this source should permit a greater proportion of investment in lower-yielding equities with more obvious growth characteristics.

Share Repurchase

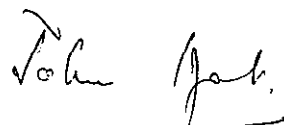
At the Extraordinary General Meeting held on 14 January 2000 shareholders passed a Special Resolution to adopt new Articles of Association of the Company. The new articles reflect current legislation and UK Listing Authority requirements, in particular the change in the law, which came into effect in November 1999, to make it possible for an investment company to finance the purchase of its own shares out of capital profits. As a result the Company may now use its capital profits to buy back shares. It will not be necessary to reduce the share premium account and repurchase will no longer affect the Company's status as an investment company.

Outlook

After four rises in interest rates in the six months to February 2000, the combination of higher interest rates and Sterling appreciation is beginning to restrain economic activity, principally through its impact on manufacturing activity and consumer confidence. It now seems likely that the more optimistic projections of UK output growth in 2000 will not be realised. If as a result inflationary pressures prove weaker than most commentators fear, interest rates may peak earlier and at lower levels than currently discounted by financial markets, encouraging renewed interest in the longer established areas of the UK stockmarket where good value is presently available.

Board

I should like to extend a warm welcome to Joanna Davidson, who was appointed to the Board in March this year.



A J R Izat
(Chairman)

Investment Managers' Review

Portfolio Management

The Company's objective is addressed by investing in UK equities to provide growth in capital and income and in fixed income securities to provide a high level of income. Additional income is generated from premiums earned by writing covered out-of-the-money traded options against assets held in the portfolio.

Long and short term borrowings are employed to augment the portfolio of investments, so that greater returns to shareholders may be generated from the capital stock thus enlarged. The Company has on issue Index-Linked Debentures on which the interest payable and the capital sums to be repaid on maturity are linked to the Retail Price Index. The Group's short term borrowings and cash resources carry interest at floating rates. The interest rate profile is managed as part of the overall investment strategy of the Group. The estimated fair value of the Group's debt is given in notes 1 and 18 to the financial statements.

The value of the portfolio is exposed to the risk of volatility in the prices of its constituent investments and the risk that a capital profit may be foregone if a traded option position moves "into the money" (i.e. a share price rises above the strike price of a call option or falls below that of a put option). A measure of the capital profit foregone in respect of traded options exercised in the course of the year is included in note 11 to the financial statements.

The impact of security price volatility is reduced by diversification and by writing covered traded options. Diversification is by type of security – ordinary shares, preference shares and convertible, corporate fixed interest and gilt-edged securities – and by investment in the stocks and shares of companies in a range of industrial, commercial and financial sectors.

The management of the portfolio is conducted according to investment guidelines, established by the Board after discussion with the Managers, which specify the limits within which the Managers are authorised to act.

Investment Background

As measured by the FTSE All-Share Index, UK Equities produced a total return of 9.9% over the twelve months to 31 March 2000. This figure fails to highlight the extreme divergence in sector performance. "New economy" sectors became fashionable as investors sought companies that could grow their profits in a low inflationary environment, e.g. Information Technology Hardware grew by 247.5% and Electronic Equipment by 141.4%. To finance increased exposure to this area traditional or "old economy" stocks were sold which produced negative returns for the "value" sectors of the market.

To obtain its above average yield, the Shires Income portfolio is predominantly invested in "old economy" stocks and the performance of the fund was adversely affected by these factors. Three principal developments affected the UK stockmarket:

- Concerns that the Year 2000 computer problem would have an adverse impact on the global economy were misplaced and the event passed almost unnoticed. Economic statistics before and after the New Millennium were affected by stock building and above average consumer spending.
- Throughout the period forecasts of output growth were upgraded, mainly to reflect the continuing strength of the US economy, the export-led growth in Europe and the recovery of the Japanese and South East Asian economies. During this growth phase central banks around the world moved to head off inflation. In the UK and Europe tighter monetary policy, combined with tough price competition, kept inflation forecasts within target range. In the US, despite five interest rate rises, the economy showed little sign of slowing down. Uncertainty over how far US rates would have to rise to curb excess demand was the biggest threat to investors.

Investment Managers' Review

(Continued)

- One of the main features over the period was the continued weakness of the Euro which depreciated by 15% against Sterling. The weak Euro and a strong US economy provided Europe with an export-led economic recovery. On the other hand the UK manufacturing sector suffered as UK exports became less competitive.

Portfolio

The proceeds of the new Index-Linked Debenture were used to repay short-term borrowings and the balance was invested in Equities. As a result exposure to Equities rose from 105.0% to 111.9% of net assets.

There was little activity within Convertibles and Other Fixed Interest which, over the period, remained unchanged at 16.5% of net assets.

Equities

The investment of new money in the equity portfolio marginally changed the sector profile of the Fund. Resources, Utilities and Information Technology were increased and General Industrials and Non-Cyclical Consumer Goods reduced. Principal changes in security holdings within the portfolio were:

- In the Resources and General Industrials groups, British Steel, FKI and Tomkins were sold due to concern that strong Sterling would impact negatively on the trading outlook. The holdings in the mining company Billiton and the oil company Shell Transport were increased, as both were expected to benefit from an upturn in commodity prices. Following a period of poor relative performance, which left the shares appearing undervalued, a new holding in Imperial Chemical Industries was purchased. ICI offered an above average yield and will benefit from recent rationalisation measures.
- Within the Non-Cyclical Consumer Goods sector, the holdings in beverage companies Allied Domecq and Diageo were sold, reflecting the poor outlook for the spirits market. Increased tobacco litigation in the US was the reason for the disposal of the holding in BAT. Within General Retailers, Next was sold. A new holding in Marks and Spencer was purchased in the expectation that new management would take the measures necessary to improve the performance of this leading high street retailer.
- Within Non-Cyclical Services the holding in the telecommunication company Orange was sold and Cable and Wireless was reduced. The ratings of both shares appeared to discount future prospects.
- In Utilities the main activity was the purchase of a substantial holding in Centrica, the gas distribution company. Centrica is benefiting from the liberalisation of the electricity and telecommunications markets and growth in these areas is more than offsetting the reduction in its gas distribution business. The recent purchase of the AA provides another service to sell to its substantial customer base.



Centrica's 1999 acquisition of the AA.



Sun Life Centre, headquarters of AXA Sun Life.



Development and testing of Marconi's SMAs.

Investment Managers' Review

(Continued)

- Within the Information Technology sector the holding in the telecommunications supplier Marconi was increased and a new holding in internet switch manufacturer BATM Advanced Communications was purchased.

Convertibles

The Kleinwort Benson COSI-80 Index of leading convertible stocks showed a total return of 14.1% over the year to 31 March 2000, outperforming both the returns from UK Equities and conventional fixed interest securities. There was no activity within the Convertible portfolio. Due to the strong performance of a number of holdings, exposure rose from 9.7% to 10.8% of net assets.

Fixed Interest

Long-dated fixed interest securities underperformed Equities over the period, producing a total return of 3.1%. Investors were relaxed that the authorities were taking appropriate action to maintain inflation within the Government's target range. The strong performance of the UK economy has led to a sharp improvement in Government finances and a subsequent fall in the issuance of new gilt-edged stock. This has been a positive technical factor for fixed interest markets.

Traded Option Writing

Investment income including special dividends was substantially up over the year. The level of traded option activity was down, generating premiums of £829,000 compared with £1,255,000 last year.

Outlook

Since the turn of the year global equities have been extremely volatile. The main concern influencing financial markets is the persistent strength of the US economy and the level that US short-term interest rates will have to reach before a slowdown in activity is apparent. Against this backdrop "new technology" stocks have suffered and "old economy" stocks have returned to favour.

The fundamental outlook for the UK economy remains positive but UK equities will remain volatile until US economic activity slows. UK short-term interest rates appear to be near their peak for the current cycle. Sterling may also have peaked and should depreciate throughout the rest of the year, improving the prospects for the industrial sectors of the market.

Largest 30 Holdings

at 31 March 2000

	Market value £000	% of portfolio
ASSOCIATED UNDERTAKING		
Shires Smaller Companies (see note)	12,943	7.5
ORDINARY SHARES		
British Telecommunications	8,813	5.1
Centrica	8,263	4.8
Compass	5,522	3.2
Cable & Wireless Communications	5,300	3.1
Billiton	5,149	3.0
United News & Media	4,741	2.7
Ocean Group	4,501	2.6
Airtours	4,344	2.5
BG	3,925	2.3
Shell	3,900	2.3
Marconi	3,895	2.3
SmithKline Beecham	3,744	2.2
Abbey National	3,713	2.1
Lloyds TSB	3,476	2.0
Glaxo Wellcome	3,195	1.9
AstraZeneca	3,174	1.8
Railtrack	3,117	1.8
Trinity Mirror	3,013	1.7
Marks & Spencer	3,008	1.7
Sun Life & Provincial	2,975	1.7
Cable & Wireless	2,721	1.6
Imperial Chemical Industries	2,621	1.5
Woolwich	2,618	1.5
Legal & General	2,565	1.5
Prism Rail	2,490	1.4
Scottish Power	2,437	1.4
BATM Advanced Communications	2,111	1.2
CONVERTIBLES		
British Aerospace 7.75p pref	3,852	2.2
Telewest Communications 5.25% Bond	2,810	1.6
	<u>124,936</u>	<u>72.2</u>

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.

Analysis of Portfolio

	United Kingdom %	North America %	2000 Total %	1999 Total %
EQUITIES AND CONVERTIBLES				
Resources	5.8	-	5.8	3.0
Basic industries	3.7	-	3.7	4.0
General industrials	5.1	-	5.1	8.2
Non-cyclical consumer goods	8.5	-	8.5	13.1
Cyclical services	21.5	-	21.5	20.8
Non-cyclical services	10.7	-	10.7	11.4
Utilities	10.9	-	10.9	8.2
Financials	21.8	-	21.8	22.1
Information technology	3.5	-	3.5	-
	91.5	-	91.5	90.8
FIXED INTEREST STOCKS	8.2	-	8.2	8.7
UNLISTED INVESTMENTS	-	0.3	0.3	0.5
TOTAL PORTFOLIO				
- 31 MARCH 2000	99.7	0.3	100.0%	
- 31 MARCH 1999	99.7	0.3		100.0%

Directors and Corporate Information

Directors

A. John R. Izat (Chairman)

Age 67. 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 Moredun Research Institute and a director of Shires Smaller Companies plc and other companies.

The Hon. Mrs Joanna R. Davidson

Age 42. Joined the Board in March 2000. Director of Chitty Food Group plc and non-executive director of UA Group plc.

J. Martin Haldane C.A.

Age 58. Joined the Board in 1996. Senior partner in Chiene & Tait, Chartered Accountants. Deputy Chairman of the Scottish Life Assurance Company, Director of Investors Capital Trust PLC and a number of other companies.

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

Age 68. Joined the Board in 1995. Chairman of Johnstons of Elgin Limited. Director of the North of Scotland Board of the Bank of Scotland and other companies.

John Stubbs

Age 56. Joined the Board in 1985. Director of Friends Ivory & Sime plc. Chairman of Shires Smaller Companies plc.

All Directors are members of the Nominations Committee which is chaired by A. J. R. Izat. All Directors except A. J. R. Izat are members of the Audit Committee which is chaired by J. M. Haldane.

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

Stockbrokers

Cazenove & Co.

Bankers

HSBC Bank plc

Registrars and Transfer Office

Lloyds TSB Registrars Scotland
117 Dundas Street
Edinburgh EH3 5ED
Telephone: 0870 601 5366

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 1999 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.

Results and Dividends

The financial statements for the year ended 31 March 2000 appear on pages 20 to 39.

A final dividend of 5.75p per share is proposed which, together with the interim dividends already paid, takes the total dividends for the year to 18.65p per share (1999-18.00p plus a special dividend of 0.65p per share).

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 ("GIM"), its managers and secretaries.

The Company has a 26.7% interest in Shires Smaller Companies plc, a listed investment trust (see note 13 to the financial statements).

Ownership of Glasgow Investment Managers

On 1 April 1999 the Company and GIM entered into an agreement under which the executive directors and employees of GIM would have the opportunity to increase their shareholding in GIM up to 50.1% subject to meeting certain profit objectives. The provisions of this agreement are intended to enable GIM to attract and retain executive staff of the calibre required to develop the business. Further particulars of the agreement are contained in note 27 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 11. All held office throughout the year with the exception of J. R. Davidson who was appointed on 1 March 2000.

In accordance with the Articles of Association and the Combined Code on Corporate Governance, J. Stubbs retires from office by rotation and offers himself for re-election. J. R. Davidson, having been appointed since the last Annual General Meeting, retires from office and offers herself for election.

Report of the Directors

(Continued)

Directors' Interests in Shares

The interests of the Directors in office at 31 March 2000 in the capital of the Company were as follows:

	Beneficial Interest		Non-Beneficial Interest	
	31 March 2000	31 March 1999	31 March 2000	31 March 1999
<i>Ordinary shares of 50p each</i>				
J. M. Haldane	2,000	2,000	720	720
J. A. D. Harrison	4,000	4,000	-	-
A. J. R. Izat	23,709	23,709	8,100	8,100

J. R. Davidson and 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 19 May 2000.

Corporate Governance

The Board has put in place Corporate Governance arrangements which it believes are appropriate for an investment trust company and enable the Company to comply with the relevant Principles of Good Governance and Code of Best Practice ("the Combined Code") published by the Committee on Corporate Governance in June 1998.

The Board

The Board currently consists of five non-executive Directors. As the Company's Managers, GIM, is a subsidiary of the Company, all the Directors are deemed to be connected with the Managers. A.J.R. Izat is a non-executive Director of GIM Holdings Limited, the immediate parent company of GIM. Biographies of the Directors appear on page 11.

The Board considers that the post of chief executive officer is not relevant in the context of an investment trust as this role has effectively been delegated to GIM. Similarly, the Board does not believe that there is a need for a senior independent director, in addition to the separate roles of Chairman and Chairman of the Audit Committee.

The Board has appointed GIM to manage the Company's investment portfolio within the guidelines set by the Board and to provide it with accounting and secretarial services. GIM provides the Board with monthly reports on the Company's activities. The Board has a formal schedule of matters specifically reserved to it for decision.

The Audit Committee, comprising all of the Directors of the Company except the Chairman, meets at least twice per year and is chaired by J. M. Haldane. The principal role of the Audit Committee is to review the annual and interim financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements. The external auditors attend at least one meeting of the Audit Committee per year.

Report of the Directors

(Continued)

Appointments of new Directors are considered by the Nominations Committee which comprises all of the Directors. Under the Articles of Association new Directors are subject to re-election at the first Annual General Meeting after their appointment. Thereafter, Directors are required to submit themselves for re-election every three years.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice of GIM as Secretaries of the Company.

Relations with Shareholders

All shareholders are entitled to attend and vote at Annual General Meetings at which Directors and Managers are available to discuss key issues affecting the Company.

As recommended by the Combined Code, the Company announces the proxy votes cast at general meetings.

At least twenty working days' notice is given of the Annual General Meeting.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Company's system of internal controls. This extends the existing requirements in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

Internal Control: Guidance for Directors on the Combined Code (the "Turnbull guidance") was published in September 1999. However, under the London Stock Exchange's transitional arrangements, the Directors have continued to review and report upon the internal financial controls in accordance with the ICAEW's 1994 guidance *Internal Control and Financial Reporting*.

The Directors have introduced procedures to implement the Turnbull guidance. These include identification of the Company's objectives and risks and establishing controls for each significant risk.

The Board has delegated certain functions. The main service providers are GIM, the managers and secretaries, HSBC Bank plc, the custodians, and Lloyds TSB Registrars Scotland, the registrars. GIM provides the Board with monthly reports, which cover investment activities and financial matters, and with periodic reports on its control procedures and its system of internal financial control. An independent custodian, HSBC Bank plc, is appointed to safeguard the Company's investments, which are registered in the name of the custodian's nominee company. In view of the controls that are in place, the Directors do not consider that there is any need for an internal audit function.

Compliance with the Provisions of the Combined Code

Subject to the special circumstances of the Company as an investment trust, the Company has complied with the provisions set out in Section 1 of the Combined Code throughout the year.

Report of the Directors

(Continued)

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.

Payment Policy

The Company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. The Company does not have trade creditors.

Substantial Interests

As at 19 May 2000 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	10.2
Barclays Bank PLC, a subsidiary of Barclays PLC	1,792,180	6.0

Share Capital

On 1 April 1999, 475,774 new ordinary shares were issued on conversion of £951,549 11% Convertible Unsecured Loan Stock 2003/2004. During April 1999, the Company served notice requiring compulsory conversion of the remaining £1,691,813 of Stock. The holders of £361 of Stock elected to be repaid at par in cash and all other Stock was converted into 845,726 new ordinary shares. The total premium arising from these conversions was £1,983,000.

Year 2000

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

During 1998 and 1999, GIM'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. No potential software non-compliance problems were found. Following these changes, the systems were re-examined to confirm that they were now compliant. No further costs are expected to be incurred.

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

Now that the critical date of 1 January 2000 has passed, the Directors are pleased to report that no problems prejudicial to the operations of the Group have been encountered by GIM or counterparties. Nevertheless, they must point out that despite the satisfactory outcome of Year 2000 preparations to date, it is impossible to guarantee that the Group will be totally immune from adverse consequences of non-compliance which may have yet to manifest themselves.

Report of the Directors

(Continued)

Special Business at the Annual General Meeting

Authority to allot shares

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 2004, it is considered that it would be helpful to renew it for a five-year period, as permitted under the Companies Act. Accordingly, Resolution 6 will be proposed as an ordinary resolution giving the Directors general authority to allot shares in the Company to the extent of one-third of the Company's present issued ordinary share capital.

Authority to allot shares for cash

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. Accordingly, Resolution 7 will be proposed as a special resolution 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 £741,205 which is equivalent to 5% of the present issued ordinary share capital of the Company.

Proposed Purchase of the Company's own shares

At Extraordinary General Meetings of the Company and Convertible Unsecured Loan Stock holders held on 25 June 1998 resolutions were passed to cancel the whole of the share premium account, subject to confirmation by the Court, and to authorise the Company to buy back some of its own shares.

It was reported in last year's Report of the Directors that the Company would defer submitting a petition to the Court to reduce the share premium account in order to set up a special reserve to fund buy-backs of its own shares, anticipating amendments to legislation concerning investment trust status. In November 1999 a statutory instrument came into force making it possible for an investment company to redeem or purchase its own shares out of its capital profits. At an Extraordinary General Meeting of the Company held on 14 January 2000 a resolution to amend the Articles of Association to reflect this change was passed. Any buy-back of shares may now be made out of capital profits, making it unnecessary to reduce the share premium account. The Company will only buy-back shares at a discount to the prevailing net asset value per share, in order to enhance value for shareholders.

The resolution passed on 1 July 1999 to authorise the purchase of shares expires at the forthcoming Annual General Meeting. Resolution 8 will be proposed as a special resolution to renew that authority.

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 Company and 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 the Group 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 20 to 39.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 18 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent Auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority (FSA) and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 13 to 15 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the FSA, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 2000 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
Chartered Accountants
Registered Auditor
Glasgow

KPMG Audit Plc

24 May 2000

Consolidated Statement of Total Return

(incorporating the Revenue Account*)
for the year ended 31 March 2000

	Notes	2000			1999 (restated per note 1(h))		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains/(Losses) on investments	11	-	(8,805)	(8,805)	-	8,033	8,033
Income from investment activity	2	6,923	-	6,923	6,275	-	6,275
Investment management income		3,905	-	3,905	3,215	-	3,215
Investment management expenses		(2,561)	-	(2,561)	(2,228)	-	(2,228)
Net income from investment management		1,344	-	1,344	987	-	987
Management and administrative expenses	4	(615)	(319)	(934)	(655)	(301)	(956)
GROUP OPERATING RETURN		7,652	(9,124)	(1,472)	6,607	7,732	14,339
Associated undertaking		479	2,689	3,168	543	(1,810)	(1,267)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		8,131	(6,435)	1,696	7,150	5,922	13,072
Part disposal of subsidiary undertaking	12	-	(443)	(443)	-	(129)	(129)
Finance costs of borrowings:							
Group	6	(1,576)	(647)	(2,223)	(1,696)	(1,360)	(3,056)
Associated undertaking		(134)	(134)	(268)	(136)	(136)	(272)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		6,421	(7,659)	(1,238)	5,318	4,297	9,615
Taxation	7	192	-	192	14	-	14
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		6,229	(7,659)	(1,430)	5,304	4,297	9,601
Preference dividend	9	2	-	2	2	-	2
Minority equity interest		430	-	430	173	-	173
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS		5,797	(7,659)	(1,862)	5,129	4,297	9,426
Dividends on equity shares	9	5,529	-	5,529	5,283	-	5,283
TRANSFER TO/(FROM) RESERVES	22	268	(7,659)	(7,391)	(154)	4,297	4,143
Return per ordinary share							
- undiluted	10	19.56p	(25.83)p	(6.27)p	18.11p	15.17p	33.28p
- fully diluted	10				17.57p	14.83p	32.40p
Dividends per ordinary share	9	18.65p			18.00p†		

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

† Additionally, a special dividend of 0.65p per ordinary share was paid.

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.

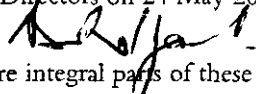
Balance Sheets

as at 31 March 2000

	Notes	Group		Company	
		2000 (restated per note 1(h) to the accounts) £000	1999 (restated per note 1(h) to the accounts) £000	2000 (restated per note 1(h) to the accounts) £000	1999 (restated per note 1(h) to the accounts) £000
FIXED ASSETS					
Investments	11	160,085	162,642	160,085	162,642
Subsidiary undertakings	12	-	-	1,535	646
Associated undertaking	13	12,943	10,388	12,943	10,388
Tangible assets	14	175	221	-	-
		<u>173,203</u>	<u>173,251</u>	<u>174,563</u>	<u>173,676</u>
CURRENT ASSETS					
Debtors	15	2,217	2,519	2,420	2,798
Dealing investments held by subsidiary undertakings	16	834	656	-	-
Cash at bank and in hand		3,574	3,011	1,350	1,378
		<u>6,625</u>	<u>6,186</u>	<u>3,770</u>	<u>4,176</u>
CREDITORS					
Amounts falling due within one year	17	7,418	15,282	6,125	14,424
NET CURRENT LIABILITIES		<u>(793)</u>	<u>(9,096)</u>	<u>(2,355)</u>	<u>(10,248)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>172,410</u>	<u>164,155</u>	<u>172,208</u>	<u>163,428</u>
CREDITORS					
Amounts falling due after more than one year (including convertible debt)	18	37,260	24,721	37,260	24,721
MINORITY EQUITY INTEREST		<u>848</u>	<u>385</u>	<u>-</u>	<u>-</u>
NET ASSETS		<u>134,302</u>	<u>139,049</u>	<u>134,948</u>	<u>138,707</u>
CAPITAL AND RESERVES					
Called up share capital	19	14,874	14,213	14,874	14,213
Share premium account	20	20,339	18,412	20,339	18,412
Other capital reserves	21				
Realised		69,440	62,853	66,455	59,816
Unrealised		24,683	38,575	29,424	42,176
Revenue reserves	22				
Realised		4,430	4,460	3,856	4,090
Unrealised		536	536	-	-
SHAREHOLDERS' FUNDS (Including non-equity)	23	<u>134,302</u>	<u>139,049</u>	<u>134,948</u>	<u>138,707</u>
Net asset value per ordinary share					
- undiluted	10	452.82p	490.70p		
- fully diluted	10		477.74p		

Approved by the Board of Directors on 24 May 2000 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 2000

	Notes	2000		1999	
		£000	£000	£000	£000
OPERATING ACTIVITIES					
Dividends and interest received					
- from investments			6,249		4,724
- from associated undertaking			345		335
Income tax recovered			40		18
Interest received			168		197
Investment dealing receipts			6,762		12,532
Other cash received			3,372		3,834
Payments to and on behalf of Directors			(50)		(46)
Investment dealing payments			(6,619)		(12,776)
Other cash payments			<u>(2,695)</u>		<u>(2,383)</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	24		7,572		6,435
SERVICING OF FINANCE					
Interest paid		(1,603)		(1,993)	
Payments of income tax		(255)		(280)	
Preference dividends paid		<u>(2)</u>		<u>(2)</u>	
			(1,860)		(2,275)
TAXATION					
Corporation tax paid		-		(178)	
Corporation tax refunded		<u>53</u>		<u>235</u>	
			53		57
CAPITAL EXPENDITURE					
Purchases of investments		(48,310)		(60,307)	
Purchases of tangible fixed assets		(87)		(74)	
Sales of investments		42,049		57,666	
Sales of tangible fixed assets		<u>-</u>		<u>4</u>	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(6,348)		(2,711)
EXPENSES OF GROUP REORGANISATION			(253)		-
EQUITY DIVIDENDS PAID			<u>(5,268)</u>		<u>(5,133)</u>
NET CASH OUTFLOW BEFORE FINANCING			(6,104)		(3,627)
FINANCING					
Issue of Index-Linked Debenture		14,825		-	
Issue of share capital by subsidiary undertaking		-		72	
Debt due within one year					
- (decrease)/increase in short-term borrowings		<u>(5,990)</u>		<u>1,494</u>	
			8,835		1,566
INCREASE/(DECREASE) IN CASH	26		<u>2,731</u>		<u>(2,061)</u>

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 income and expenditure of the investment management subsidiary is shown separately as distinct from the income and expenditure of the parent undertaking and its dealing subsidiary.

(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 was written off against realised capital reserve.

(d) Associated undertakings

An associated undertaking is one in which the Company has a participating interest and over whose operating and financial policies the Company exercises a significant influence.

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 their useful economic lives. Leasehold property improvements are depreciated evenly over the period of the lease.

(h) Income and expenditure

Dividends are credited to revenue on the date when the investment is first quoted ex-dividend at the amount receivable without any attributable tax credit. This is a change in accounting policy to comply with Financial Reporting Standard 16 "Current Tax" which has replaced Statement of Standard Accounting Practice 8. Under the latter Standard, dividends (other than foreign income dividends) were recognised inclusive of an attributable tax credit which also formed part of the tax charge.

Notes to the Financial Statements

(Continued)

The effect of this change is that Revenue Return on Ordinary Activities before Taxation is £726,000 lower (1999-£1,011,000 lower). However, there is no effect on Revenue Return on Ordinary Activities after Taxation (1999-£nil) or on Equity Shareholders' Funds (1999-£nil).

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. 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.

There has been a change in the income recognition policy in respect of income from traded options. These were previously recognised as income whenever the options expired or were exercised or assigned. The new policy is to recognise them as income evenly over the period from the date they are written to the date when they expire or are exercised or assigned. As a result of this change of accounting policy, revenue on ordinary activities after taxation for the year is £76,000 lower (1999-£215,000 higher). There is no effect on Equity Shareholders Funds at 31 March 2000 (1999-£76,000 higher).

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.

(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) Index-Linked Debenture Stocks

The index-linked adjustments to the redemption values of the Index-Linked Debenture Stocks are accrued annually and charged to realised capital reserve. The discounts on issue and the expenses of new issues are amortised annually to share premium account over the lives of the Debentures. Interest payable on the Debentures is charged to revenue account.

By making this allocation between capital and revenue, the increase in the redemption values is deemed to be matched against the expected capital appreciation of the investment portfolio, in which the original proceeds of issues 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 ("GIM"), 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 policy which differs from the SORP is the recognition of income from preference shares.

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.

Notes to the Financial Statements

(Continued)

(n) Financial assets and liabilities

The Group's financial assets include investments, cash at bank and short-term debtors. Financial liabilities consist of bank loans and overdrafts, convertible unsecured loan stock, index-linked debenture stock, preference shares and short-term creditors. The Group has taken advantage of the exemption available in paragraph 6 of Financial Reporting Standard 13 "Derivatives and other financial instruments: disclosures" for short-term debtors and creditors.

The book values of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. The estimated fair value of the Index-Linked Debenture Stocks have been determined with reference to the current interest profile of similar instruments.

2. INCOME

	2000	1999 (restated per note 1(h) to the accounts)
	£000	£000
PARENT UNDERTAKING AND INVESTMENT DEALING SUBSIDIARY		
<i>Income from listed investments</i>		
Franked investment income	5,388	4,324
UK unfranked investment income	237	152
Foreign income dividends	-	750
	<u>5,625</u>	<u>5,226</u>
<i>Income from unlisted investments</i>		
Franked investment income	186	-
<i>Other income from investment activity</i>		
Interest receivable	97	110
Traded option premiums	829	1,255
Underwriting commission	37	-
Profits less losses of dealing subsidiary	149	(316)
	<u>1,112</u>	<u>1,049</u>
	<u>6,923</u>	<u>6,275</u>
INVESTMENT MANAGEMENT SUBSIDIARY		
Investment management fees	3,805	3,124
Interest receivable	100	91
	<u>3,905</u>	<u>3,215</u>
Total income comprises:		
Dividends	5,811	5,226
Interest	197	201
Other income from investment activity	1,015	939
Investment management fees	3,805	3,124
	<u>10,828</u>	<u>9,490</u>
TOTAL INCOME	10,828	9,490

Listed franked investment income includes special dividends totalling £406,000 (1999-£185,000). Foreign income dividends includes special dividends totalling £Nil (1999-£177,000). Unlisted investment income includes arrears of dividends from previous years from a preference stock totalling £171,000 (1999-£nil).

All dividend income was received from UK companies.

Notes to the Financial Statements

(Continued)

3. MANAGEMENT AND SECRETARIAL FEE

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 2000 was £663,000 (1999-£627,000). £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 2000 the amount of such fees owed to GIM was £166,000 (1999-£163,000).

4. MANAGEMENT AND ADMINISTRATIVE EXPENSES

(a) Parent Undertaking

	2000			1999		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Directors' remuneration	39	-	39	42	-	42
Investment management fee	319	319	638	301	301	602
Secretarial fee	25	-	25	25	-	25
Other expenses	232	-	232	287	-	287
	<u>615</u>	<u>319</u>	<u>934</u>	<u>655</u>	<u>301</u>	<u>956</u>

(b) Group

	2000 £000	1999 £000
Administrative expenses paid by the Group include:		
Directors' remuneration (note 5)		
- fees as directors	48	43
- for executive duties	-	5
Auditors' remuneration		
- parent undertaking	16	18
- subsidiary undertakings	7	6
Fees payable to auditors and associates for other services	10	41
Depreciation	112	94
Operating lease charges	63	69

The expenses of issue of the 3.4375% Index-Linked Debenture Stock 2017/2019, which are being amortised to share premium account over the life of this Stock, include £3,000 of fees payable to associates of the auditors in respect of other services.

Notes to the Financial Statements

(Continued)

5. EMPLOYEE COSTS AND DIRECTORS' REMUNERATION

The Company had no direct employees (1999-Nil). GIM had 20 employees during the year (1999-19). Total group employee costs (including Directors of the Company) were:

	2000 £000	1999 £000
Wages and salaries	1,497	1,207
Social Security costs	175	124
Other pension costs	196	214
	<u>1,868</u>	<u>1,545</u>

The aggregate emoluments of Directors was £48,000 (1999-£48,000) and includes £Nil (1999-£5,000) for executive duties and £9,000 (1999-£6,000) paid by a subsidiary undertaking.

The highest paid Director received a total of £22,000 (1999-£23,000) and includes £Nil (1999-£5,000) for executive duties and £9,000 (1999-£6,000) paid by a subsidiary undertaking.

No pension contributions were paid for Directors (1999 - Nil).

6. FINANCE COSTS OF BORROWINGS

	Revenue £000	2000 Capital £000	Total £000	Revenue £000	1999 Capital £000	Total £000
Bank loans and overdrafts repayable within five years	289	289	578	432	432	864
5% Index-Linked Debenture Stock 2008/2010	1,139	364	1,503	1,119	783	1,902
3.4375% Index-Linked Debenture Stock 2017/2019	148	(6)	142	-	-	-
11% Convertible Unsecured Loan Stock 2003/2004	-	-	-	145	145	290
	<u>1,576</u>	<u>647</u>	<u>2,223</u>	<u>1,696</u>	<u>1,360</u>	<u>3,056</u>

7. TAXATION

	Revenue £000	2000 Capital £000	Total £000	Revenue £000	1999 Capital £000	Total £000
Corporation tax	181	-	181	-	-	-
Movement in provision for advance corporation tax	-	-	-	14	-	14
Adjustment in respect of previous year	11	-	11	-	-	-
	<u>192</u>	<u>-</u>	<u>192</u>	<u>14</u>	<u>-</u>	<u>14</u>

Notes to the Financial Statements

(Continued)

8. REVENUE ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The revenue attributable to members includes £5,297,000 (1999 restated-£5,057,000) which has been dealt with in the Company's financial statements.

9. DIVIDENDS

	2000 p	1999 p	2000 £000	1999 £000
Ordinary shares				
Interims paid				
- as ordinary dividends	8.60	5.15	2,549	1,459
- as a foreign income dividend	-	3.25	-	921
Interim payable	4.30	4.20	1,275	1,190
Proposed final	5.75	5.40	1,705	1,529
	<u>18.65</u>	<u>18.00</u>	<u>5,529</u>	<u>5,099</u>
Special dividend paid	-	0.65	-	184
	<u>18.65</u>	<u>18.65</u>	<u>5,529</u>	<u>5,283</u>
Cumulative preference shares			<u>2</u>	<u>2</u>

10. RETURN AND NET ASSET VALUE PER ORDINARY SHARE

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

	2000	1999 (restated)
Revenue return	£5,797,000	£5,129,000
Capital return	£(7,659,000)	£4,297,000
Weighted average number of ordinary shares	29,648,192	28,326,692

Undiluted net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £134,252,000 (1999 restated-£138,999,000) and on the 29,648,192 (1999-28,326,692) ordinary shares in issue at 31 March 2000.

In April 1999, the Company served notice requiring compulsory conversion of the remaining outstanding 11% Convertible Unsecured Loan Stock 2003/2004. Consequently, no fully diluted returns per share are being reported for this year as they are not materially different from the undiluted returns. Also, there is no fully diluted net asset value per ordinary share to report at 31 March 2000.

Fully diluted revenue returns per ordinary share for the year to 31 March 1999 and the fully diluted net asset value per ordinary share as at that date have been restated as a result of the change in traded option income recognition policy referred to in note 1(h).

Notes to the Financial Statements

(Continued)

11. INVESTMENTS

	Group and Company					
	2000 £000			1999 £000		
Listed on stock exchanges:						
In the United Kingdom	159,550			161,802		
Overseas	43			27		
	<u>159,593</u>			<u>161,829</u>		
Unlisted	492			813		
	<u>160,085</u>			<u>162,642</u>		
	Group			Company		
	Listed Investments £000	Unlisted Investments £000	Total £000	Listed Investments £000	Unlisted Investments £000	Total £000
Cost at 31 March 1999	124,573	966	125,539	124,635	966	125,601
Unrealised appreciation/(depreciation) at 31 March 1999	<u>37,256</u>	<u>(153)</u>	<u>37,103</u>	<u>37,194</u>	<u>(153)</u>	<u>37,041</u>
Valuation at 31 March 1999	161,829	813	162,642	161,829	813	162,642
Purchases	48,310	-	48,310	48,310	-	48,310
Sales - proceeds	(41,600)	(449)	(42,049)	(41,600)	(449)	(42,049)
- net gains on sales	6,192	310	6,502	6,192	310	6,502
Movement in unrealised appreciation/ (depreciation) during the year	<u>(15,138)</u>	<u>(182)</u>	<u>(15,320)</u>	<u>(15,138)</u>	<u>(182)</u>	<u>(15,320)</u>
Valuation at 31 March 2000	<u>159,593</u>	<u>492</u>	<u>160,085</u>	<u>159,593</u>	<u>492</u>	<u>160,085</u>
Cost at 31 March 2000	137,475	827	138,302	137,537	827	138,364
Unrealised appreciation/(depreciation) at 31 March 2000	<u>22,118</u>	<u>(335)</u>	<u>21,783</u>	<u>22,056</u>	<u>(335)</u>	<u>21,721</u>
Valuation at 31 March 2000	<u>159,593</u>	<u>492</u>	<u>160,085</u>	<u>159,593</u>	<u>492</u>	<u>160,085</u>

Gains/(losses) on Investments

	Group	
	2000 £000	1999 £000
Net realised gains on sales of investments	7,393	20,372
Movement in unrealised appreciation/(depreciation) of investments	(15,043)	(11,031)
Exercising of call options	(891)	(1,109)
Assigning of put options	(277)	(623)
Movement in unrealised depreciation of traded options	13	424
	<u>(8,805)</u>	<u>8,033</u>

The cost of the exercising of call options and the assigning of put options is the difference between the market price of the underlying shares and the strike price of the options. The premiums earned on options expired, exercised or assigned of £829,000 (1999 restated-£1,255,000) have been dealt with in the revenue account.

The movement in the provision for traded options has been calculated in accordance with the accounting policy stated in note 1(h) and has been charged to the unrealised capital reserve.

Notes to the Financial Statements

(Continued)

At 31 March 2000 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
Marshall's Universal PLC	England	220,000 7.5% cum rd pref	10.7%
R.E.A. Holdings plc	England	654,000 9% cum pref	11.5%
Sierra Monitor Corporation	USA	1,549,134 shares of common stock	14.1%
Submersible Television Surveys Limited	Scotland	186,490 8% cum rd pref	40.8%

12. SUBSIDIARY UNDERTAKINGS

Cost and Net Book Value:

	Company			Total £000
	Ordinary shares £000	Preference shares £000	Loan stock £000	
At 31 March 1999	446	200	-	646
Part disposal of subsidiary	(111)	(200)	1,450	1,139
Repayment of loan stock on 31 March 2000	-	-	(250)	(250)
	<u>335</u>	<u>-</u>	<u>1,200</u>	<u>1,535</u>

On 1 April 1999 the Company exchanged all of its 73% holding in the ordinary share capital of GIM for 54.9% of the ordinary share capital of GIM Holdings Limited. The consideration to the Company was £1,250,000 8% unsecured redeemable loan stock in GIM Holdings Limited, repayable in five tranches of £250,000 on 31 March in each of the years 2000 to 2004. On the same day, GIM became a wholly owned subsidiary undertaking of GIM Holdings Limited.

The effect of this disposal is as follows:

	Group £000	Company £000
Loan stock received as proceeds	-	1,250
Reduction in assets of subsidiaries attributable to the parent undertaking	(190)	-
Original cost attributable to interest in subsidiary disposed of	-	(111)
Professional expenses incurred in disposal	(253)	(92)
(Loss)/Profit on disposal	<u>(443)</u>	<u>1,047</u>

Subsequent to the year end, the Company's interest in the ordinary share capital of GIM Holdings Limited will be reduced from 54.9% to 49.9% (see note 27).

Notes to the Financial Statements

(Continued)

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

As at 31 March 2000, the principal trading subsidiary undertakings of the Company, all of which operate in the United Kingdom, were as follows:

Company	Country of Registration	Holding	Proportional Attributable to Company	Nature of Business
Wiston Investment Company Limited	England	Ordinary	100%	Investment dealing
GIM Holdings Limited	Scotland	Ordinary	54.9%	Holding company
Glasgow Investment Managers Limited	Scotland	Ordinary Redeemable Preference	54.9%* 54.9%*	Investment management

* Held indirectly

13. ASSOCIATED UNDERTAKING

As at 31 March 2000 the Company had a 26.7% (1999-26.7%) 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 2000 the investment in Shires Smaller Companies ordinary shares had a market value of £9,090,000 (1999-£8,120,000). Shires Smaller Companies had 19,653,121 (1999-19,640,987) ordinary shares in issue at 31 March 2000.

Dividends receivable from Shires Smaller Companies for the year to 31 March 2000 amounted to £345,000 (1999-£335,000).

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

Group	£000
Share of net assets at date of acquisition	<u>5,006</u>
Share of post acquisition reserves:	
At 31 March 1999	5,382
Retained revenue	-
Net movements on capital reserves	<u>2,555</u>
At 31 March 2000	<u>7,937</u>
Net Asset Value:	
At 31 March 2000	<u>12,943</u>
At 31 March 1999	<u>10,388</u>
Company	
Cost:	
At 31 March 1999 and 31 March 2000	<u>5,239</u>
Increase in net asset value:	
At 31 March 1999	5,149
Increase during year	<u>2,555</u>
At 31 March 2000	<u>7,704</u>
Net Asset Value:	
At 31 March 2000	<u>12,943</u>
At 31 March 1999	<u>10,388</u>

Notes to the Financial Statements

(Continued)

14. TANGIBLE ASSETS

Group	Motor vehicles £000	Equipment £000	Leasehold improvements £000	Total £000
Cost:				
At 31 March 1999	157	218	55	430
Additions	22	44	-	66
Disposals	-	(8)	-	(8)
At 31 March 1999	<u>179</u>	<u>254</u>	<u>55</u>	<u>488</u>
Aggregate depreciation:				
At 31 March 1999	90	96	23	209
Provided during year	43	58	11	112
Disposals	-	(8)	-	(8)
At 31 March 2000	<u>133</u>	<u>146</u>	<u>34</u>	<u>313</u>
Net Book Value:				
At 31 March 2000	<u>46</u>	<u>108</u>	<u>21</u>	<u>175</u>
At 31 March 1999	<u>67</u>	<u>122</u>	<u>32</u>	<u>221</u>

Company

The Company has no tangible fixed assets (1999-Nil).

15. DEBTORS

	Group		Company	
	2000 £000	1999 (restated per note 1(h) to the accounts) £000	2000 £000	1999 (restated per note 1(h) to the accounts) £000
Amounts falling due within one year:				
Investment sales	-	51	-	-
Advance corporation tax recoverable	-	64	-	64
Other taxation recoverable	-	7	-	7
Accrued income	1,998	2,137	1,255	1,816
Due from subsidiary undertakings	-	-	1,153	848
Due from associated undertaking	110	89	-	-
Other debtors	109	171	12	63
	<u>2,217</u>	<u>2,519</u>	<u>2,420</u>	<u>2,798</u>

Notes to the Financial Statements

(Continued)

16. DEALING INVESTMENTS HELD BY SUBSIDIARY UNDERTAKINGS

At lower of cost and market value:	Group	
	2000 £000	1999 £000
Listed on stock exchanges:		
In the United Kingdom	764	450
Overseas	<u>20</u>	<u>6</u>
	784	456
Unlisted	<u>50</u>	<u>200</u>
	<u>834</u>	<u>656</u>

The market value of the listed investments held at 31 March 2000 was £1,694,000 (1999-£823,000).

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Bank loans and overdrafts	2,830	10,988	2,830	10,988
Investment purchases	-	50	-	-
Corporation tax	181	-	-	-
Other taxation	120	126	100	126
Dividends payable and proposed	2,980	2,719	2,980	2,719
Due to subsidiary undertakings	-	-	10	10
Traded options - deferred premiums	-	277	-	277
- provision for unexpired options	-	13	-	13
Other creditors	<u>1,307</u>	<u>1,109</u>	<u>205</u>	<u>291</u>
	<u>7,418</u>	<u>15,282</u>	<u>6,125</u>	<u>14,424</u>

Interest on short-term bank loans and overdrafts is at floating rates related to LIBOR and UK base rates respectively.

The following table shows the book values and fair values of traded options at 31 March 2000:

	Group and Company			
	2000 Book value £000	2000 Fair value £000	1999 Book value £000	1999 Fair value £000
Put options	-	-	143	123
Call options	-	-	147	83
	<u>-</u>	<u>-</u>	<u>290</u>	<u>206</u>

Notes to the Financial Statements

(Continued)

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

	Group and Company	
	2000	1999
	£000	£000
11% Convertible Unsecured Loan Stock 2003/2004	-	2,644
5% Index-Linked Debenture Stock 2008/2010	22,441	22,077
3.4375% Index-Linked Debenture Stock 2017/2019	14,819	-
	<u>37,260</u>	<u>24,721</u>

11% Convertible Unsecured Loan Stock 2003/2004

The 11% Convertible Unsecured Loan Stock was convertible 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.

On 1 April 1999 £951,549 of the Loan Stock was converted into 475,774 ordinary shares. As more than 75% of the Loan Stock had been converted, the Company served notice during April 1999 requiring compulsory conversion of the remaining £1,691,813 of outstanding Stock. The holders of £361 of Stock elected to be repaid at par in cash and all other Stock was converted into 845,726 ordinary shares.

Index-Linked Debenture Stocks

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. On 17 December 1999, a further £15,000,000 tranche of a similar stock was issued at 99.3882 per cent to the same holder under the same terms at a coupon rate of 3.4375%. The amount raised was £14,825,000 net of £83,000 expenses of issue.

The Directors' opinion of the fair value of these Stocks at 31 March 2000, determined with reference to the current interest profile of similar instruments, was £46,714,000. As there is no intention of redeeming these stocks before maturity, this value will not be realised but is given for FRS 13 disclosure purposes only.

Interest on the 5% Stock 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. In the case of the 3.4375% Stock the interest payment dates are 31 March and 30 September and the rate payable is 3.4375% as adjusted by the RPI movement between April 1999 and the month eight months prior to the month in which interest is paid.

The capital amount to be repaid on the 5% Stock 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. Similarly for the 3.4375% Stock, one third of the nominal amount of the capital will be repaid on 30 September in each of the years 2017 to 2019 as adjusted by the RPI movement between April 1999 and the month eight months prior to the month in which repayment is made.

The discounts on issues are amortised annually to share premium account over the lives of the Stocks. The £83,000 expenses of issue of the 3.4375% Stock are also being amortised annually to share premium account over the life of this stock in accordance with Financial Reporting Standard 4 "Capital Instruments". The index-linked adjustments to the redemption values are accrued annually and charged to capital reserve.

Notes to the Financial Statements

(Continued)

The amounts outstanding at 31 March 2000 comprise:

	Group and Company		
	5% 2008/10 £000	3.4375% 2017/19 £000	Total £000
Nominal amounts	16,000	15,000	31,000
Discounts on issue	(979)	(92)	(1,071)
Expenses of issue	-	(83)	(83)
Amortisation of discounts and issue expenses	<u>520</u> (459)	<u>4</u> (171)	<u>524</u> (630)
Index-linked adjustments charged to capital reserve	6,900	(10)	6,890
	<u>22,441</u>	<u>14,819</u>	<u>37,260</u>
The movements during the year were as follows:			
Amounts outstanding at 31 March 1999	22,077	-	22,077
Net proceeds of new issue	-	14,825	14,825
Amortisation of discounts (note 20)	52	4	56
Index-linked adjustments (note 21)	<u>312</u>	<u>(10)</u>	<u>302</u>
Amounts outstanding at 31 March 2000	<u>22,441</u>	<u>14,819</u>	<u>37,260</u>

19. CALLED UP SHARE CAPITAL

	Authorised		Allotted, Called Up and Fully Paid			
	2000 £000	1999 £000	2000 Number	2000 £000	1999 Number	1999 £000
Ordinary shares of 50p each	19,900	19,900	29,648,192	14,824	28,326,692	14,163
3.5% cumulative preference shares of £1 each	<u>100</u>	<u>100</u>	<u>50,000</u>	<u>50</u>	<u>50,000</u>	<u>50</u>
	<u>20,000</u>	<u>20,000</u>		<u>14,874</u>		<u>14,213</u>

On 1 April 1999, 475,774 new ordinary shares were issued on the conversion of £951,549 of 11% Convertible Unsecured Loan Stock 2003/2004. On 1 June 1999, a further 845,726 new ordinary shares were issued on the conversion of £1,691,452 of the Loan Stock. These were the only share issues during the year.

20. SHARE PREMIUM ACCOUNT

	£000
At 31 March 1999	18,412
On the conversion of Loan Stock	1,983
Amortisation of expenses and discounts on issues of Debenture Stocks (note 18)	<u>(56)</u>
At 31 March 2000	<u>20,339</u>

Notes to the Financial Statements

(Continued)

21. OTHER CAPITAL RESERVES

Realised capital reserve	Group £000	Company £000
At 31 March 1999	62,853	59,816
Net gains on sales of investments during year	7,642	6,502
Management fee	(319)	(319)
Finance costs of borrowings:		
Bank loans and overdrafts repayable within five years	(289)	(289)
Index-linked adjustment to redemption value of Debenture Stocks (note 18)	(302)	(302)
Disposal of interest in subsidiary undertaking (note 12)	(443)	1,047
Revenue element of disposal of subsidiary (note 22)	298	-
At 31 March 2000	<u>69,440</u>	<u>66,455</u>

At 31 March 2000 £207,000 (1999-£266,000) 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 1999	38,575	42,176
Movements during the year:		
Fixed asset investments	(13,905)	(15,320)
Traded options	13	13
Increase in value of investment in associated undertaking	-	2,555
At 31 March 2000	<u>24,683</u>	<u>29,424</u>

The capital reserves are not distributable.

22. REVENUE RESERVE

	Group		Company
	Realised £000	Unrealised £000	Realised £000
At 31 March 1999 (restated per note 1(h))	4,460	536	4,090
Transfer from revenue account	268	-	(234)
Disposal of interest in subsidiary undertaking (note 21)	(298)	-	-
At 31 March 2000	<u>4,430</u>	<u>536</u>	<u>3,856</u>

Notes to the Financial Statements

(Continued)

23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000	1999 (restated)
	£000	£000
Total revenue returns before dividends	5,799	5,131
Dividends (equity and non-equity)	<u>(5,531)</u>	<u>(5,285)</u>
Transfer to/(from) revenue reserves	268	(154)
Total capital returns	(7,659)	4,297
Disposal of interest in subsidiary undertaking	-	81
Issue of ordinary shares on conversion of Loan Stock	<u>2,644</u>	<u>194</u>
Net (reduction in)/addition to shareholders' funds	(4,747)	4,418
Shareholders' funds at 31 March 1999	<u>139,049</u>	<u>134,631</u>
Shareholders' funds at 31 March 2000	<u>134,302</u>	<u>139,049</u>
Equity shareholders' funds	134,252	138,999
Non-equity shareholders' funds	50	50
	<u>134,302</u>	<u>139,049</u>

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

	2000	1999 (restated)
	£000	£000
Net revenue before Group finance costs and taxation	8,131	7,150
Finance costs of associated undertaking	(134)	(136)
Dividends received from associated undertaking	345	335
Share of revenue of associated undertaking	(345)	(407)
Investment management fee charged to capital	(319)	(301)
Decrease/(Increase) in accrued income	118	(127)
Increase in dealing investments	(178)	(144)
Decrease/(Increase) in other debtors	113	(10)
Decrease/(Increase) in other creditors	(250)	6
Depreciation	112	94
Profits on sales of fixed assets	-	(4)
Income tax credits on unfranked investment income	(61)	(39)
Repayment of UK income tax	<u>40</u>	<u>18</u>
Net cash inflow from operating activities	<u>7,572</u>	<u>6,435</u>

Notes to the Financial Statements

(Continued)

25. ANALYSIS OF CHANGES IN NET DEBT	At 31 March 1999 £000	Cash flows £000	Other non-cash changes £000	At 31 March 2000 £000
Cash at bank and in hand	3,011	563	-	3,574
Bank overdrafts	(2,988)	2,168	-	(820)
Short-term borrowings	(8,000)	5,990	-	(2,010)
11% Convertible Unsecured Loan Stock 2003/2004	(2,644)	-	2,644	-
5% Index-Linked Debenture Stock 2008/2010	(22,077)	-	(364)	(22,441)
3.4375% Index-Linked Debenture Stock 2017/2019	-	(14,825)	6	(14,819)
	<u>(32,698)</u>	<u>(6,104)</u>	<u>2,286</u>	<u>(36,516)</u>

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

	2000 £000	1999 £000
Increase in cash at bank and in hand	563	859
Decrease/(Increase) in bank overdrafts	<u>2,168</u>	<u>(2,920)</u>
Increase/(Decrease) in cash during the year	2,731	(2,061)
Decrease/(Increase) in short-term borrowings	<u>5,990</u>	<u>(1,494)</u>
Change in net debt resulting from cash flows	8,721	(3,555)
Conversion of Loan Stock into equity share capital	2,644	194
Proceeds of issue of new Debenture Stock	(14,825)	-
Amortisation of expenses and discount on issue of Debenture Stock	(56)	(52)
Index-linked adjustment to redemption value of Debenture Stock	<u>(302)</u>	<u>(731)</u>
Change in net debt	(3,818)	(4,144)
Net debt at 31 March 1999	<u>(32,698)</u>	<u>(28,554)</u>
Net debt at 31 March 2000	<u>(36,516)</u>	<u>(32,698)</u>

27. POST BALANCE SHEET EVENT

On 1 April 1999 the Company entered into an agreement with GIM under which the Company exchanged its shareholding in GIM for 59.9% of the equity of a new holding company, GIM Holdings Limited, and £1.25 million 8% Unsecured Loan Notes issued by GIM Holdings. The shares in GIM held by executive directors and employees were exchanged for 40.1% of GIM Holdings' equity. The agreement set certain profit targets which, if achieved, would ultimately result in the Company's share in GIM Holdings being reduced to 49.9%. As the minimum profit target for the year ended 31 March 1999 was achieved the Company's share was reduced immediately to 54.9%, with the GIM executive directors' and employees' share being increased accordingly.

GIM's minimum profit target for the year ended 31 March 2000 has also been achieved. Consequently, subsequent to the year end, the Company's share in GIM Holdings will be reduced to 49.9% and the GIM executive directors' and employees' share increased to 50.1%.

Notes to the Financial Statements

(Continued)

28. COMMITMENTS AND CONTINGENCIES

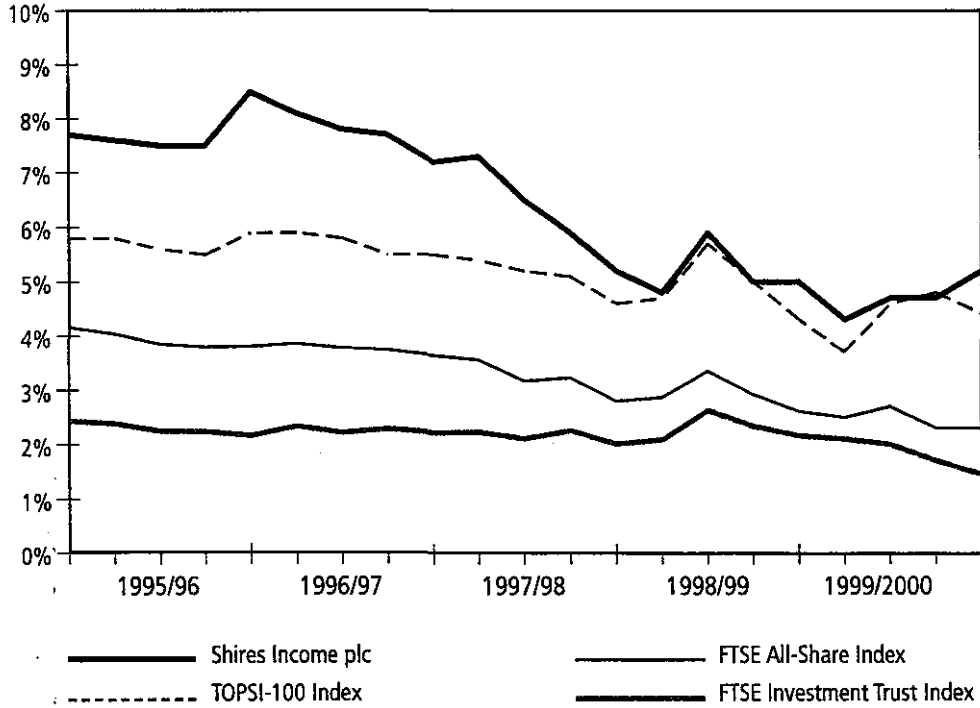
At 31 March 2000 a subsidiary undertaking had annual commitments of £63,000 (1999-£63,000) under a non-cancellable operating lease in respect of land and buildings expiring in the second to fifth years.

29. PENSION SCHEME

GIM operates a defined contribution pension scheme for its employees. GIM's total pension charge for the year was £196,133 (1999-£213,634). This charge comprises contributions due plus a provision for future contributions. At 31 March 2000, provisions for future contributions totalled £209,694 (1999-£169,180) and these are included in creditors.

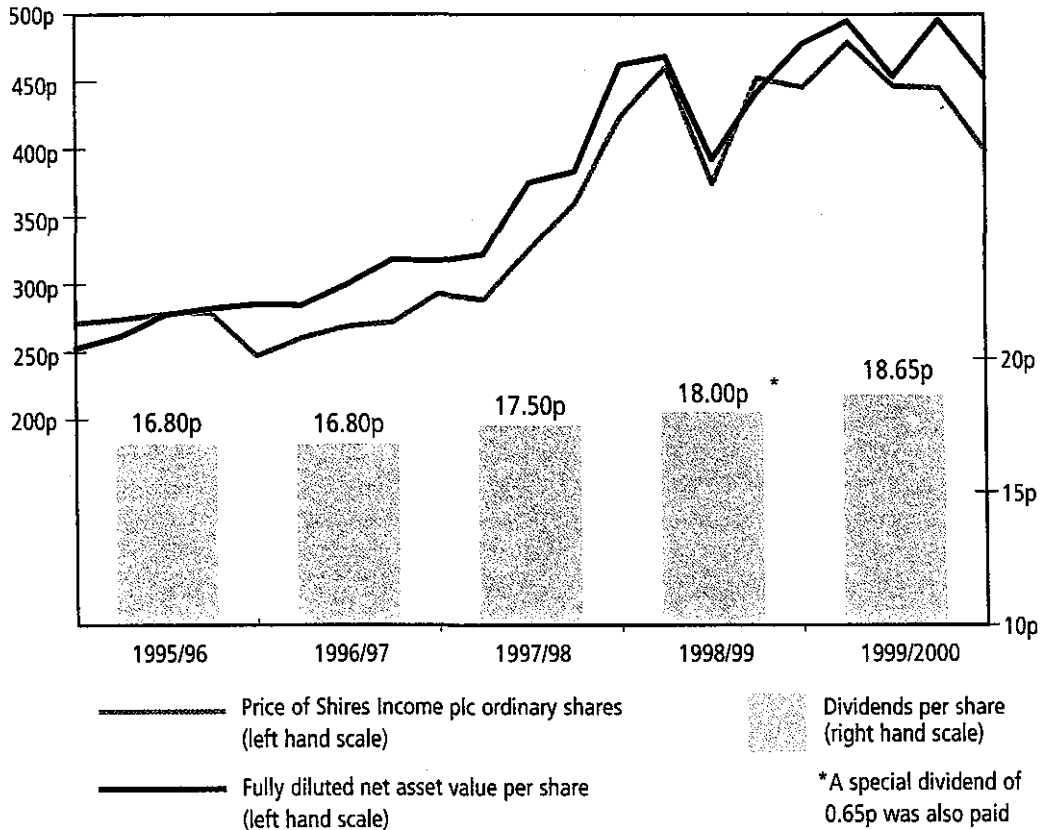
Gross Dividend Yield

These figures are stated gross, with a 20% tax credit to March 1999, and 10% thereafter.



Data Supplied by Dresdner Kleinwort Benson

Share Price, Net Asset Value and Dividends



Analysis of Shareholders

at 31 March 2000

Category	Shareholders		Shares held	
	Number	%	Number	%
Named individuals	3,939	67.3	7,811,227	26.4
Named individuals in The Glasgow TrustPlan and The Glasgow PEP	1,140	19.5	1,707,917	5.8
Banks and nominees	545	9.3	16,895,476	56.9
Other institutions	232	3.9	3,233,572	10.9
	<u>5,856</u>	<u>100.0</u>	<u>29,648,192</u>	<u>100.0</u>

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the seventy-second Annual General Meeting of the Members of the Company will be held at Trinity House, Tower Hill, London EC3N 4DH on Friday 30 June 2000 at 12 noon to transact the following business:

Ordinary Business

- Resolution 1. To receive and adopt the Directors' Report and audited financial statements for the year ended 31 March 2000.
- Resolution 2. To declare a dividend.
- Resolution 3. To re-elect Mr J. Stubbs as a Director.
- Resolution 4. To re-elect The Hon. Mrs J. R. Davidson as a Director.
- Resolution 5. 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 6. 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) up to a maximum nominal amount of £4,941,365, 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 resolutions which will be proposed as special resolutions:

- Resolution 7. 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

(ii) to the allotment (otherwise than pursuant to (i) above) of ordinary shares up to an aggregate nominal amount of £741,205 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,

Notice of Annual General Meeting

(Continued)

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.

Resolution 8. That the Company be and it is hereby generally and unconditionally authorised to make market purchases of any of its own ordinary shares in such manner and upon such terms as the Directors of the Company may from time to time determine, provided that

(i) the maximum aggregate nominal value of the ordinary shares hereby authorised to be acquired shall be limited to £2,222,132 being equal to approximately 14.99 per cent of the ordinary shares in issue;

(ii) the maximum price which may be paid for any ordinary shares shall not exceed an amount equal to 105 per cent of the average of the market values of such ordinary shares, as defined in the Listing Rules of the Financial Services Authority (FSA), for the five business days before the purchase is made and the minimum price shall be 50p per ordinary share (in each case exclusive of expenses); and

(iii) the authority hereby conferred shall expire (unless previously revoked or renewed) on 30 June 2001 or at the conclusion of the next Annual General Meeting of the Company held after the passing of this Resolution, whichever is the later, provided that the Company may before such expiry make any contract of purchase of ordinary shares which would or might be executed wholly or partly after the expiry of such authority and the Company may make such a purchase in pursuance of such contract as if the authority hereby conferred had not expired.

Resolution 9. That the Articles of Association of the Company be altered by substituting for and to the exclusion of the existing Article 78 the following:

The Directors shall be paid such remuneration (by way of fee) for their services (other than those remunerated by reason of the Director holding executive office) as may be determined by the Directors save that, unless otherwise approved by Ordinary Resolution of the Company in general meeting, the aggregate of remuneration by way of fee of all the directors shall not exceed £70,000 per annum, subject to annual upwards adjustment on 1 April in each year (the first such adjustment being on the 1 April next following the date of adoption of this Article) by reference to the percentage rate of change in the Retail Price Index maintained by the Department of Trade in respect of the preceding 12 months period, unless for any valid reason the number of Directors appointed to the Board shall be permanently or temporarily increased, in which case the maximum aggregate fees for directors may be increased proportionately.

By Order of the Board *Kennan*

for **Glasgow Investment Managers Limited**
Secretaries

31 May 2000

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.

Information for Shareholders

Financial Calendar 2000

30 June	Annual General Meeting
31 July	Ordinary Shares final dividend 1999/2000
29 September	3.5% Preference Shares half-year dividend
31 October	Ordinary Shares first interim dividend 2000/2001
23 November	Interim results announced
27 November	Interim Report published

Share price information

The price of the ordinary shares, which are listed on the London Stock Exchange, is quoted in the Financial Times, The Daily Telegraph, The Herald and The Scotsman.

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, Shires Smaller Companies plc and Glasgow Income Trust plc, the investment trusts managed by Glasgow Investment Managers Limited. Investors can make monthly payments (minimum £20) or invest occasional lump sums (minimum £200). Dividends may be reinvested. Further information may be obtained from Glasgow Investment Managers on FREEFONE 0800 435 797.

PEPs and ISAs

Since 6 April 1999 no new subscriptions to personal equity plans are permitted. The Glasgow PEP is, however, continuing for existing PEPs. Transfers may be made from other PEPs to The Glasgow PEP for investment in the Company's ordinary shares. Further information may be obtained from Glasgow Investment Managers on FREEFONE 0800 435 797.

The Company does not currently provide an individual savings account (ISA). Its ordinary shares are, however, available for investment in certain other providers' ISAs.

Share Register enquiries

The Company's Registrars, Lloyds TSB Registrars Scotland, maintain the share register. In the event of queries regarding your shares, please contact the Registrars on 0870 601 5366. Changes of name or address must be notified in writing to Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh, EH3 5ED.

Shares held in nominee names

Where notification has been received in advance, the Company will provide nominee companies with copies of shareholder communications for distribution to their customers. Shareholders holding their shares in nominee names may, if appointed as a proxy by the nominee company, attend general meetings and speak when invited by the Chairman.

Glasgow Investment Managers Limited (Regulated by IMRO)

Glasgow Investment Managers, the company which manages Shires Income plc, is a subsidiary of Shires Income plc.

Glasgow Investment Managers also manages:

- Shires Smaller Companies plc
- Glasgow Income Trust plc
- Glasgow Integrated Pension Scheme Investments Exempt Fund
- GIPSI UK Equity Exempt Fund
- GIPSI Reserve Exempt Fund

and investment portfolios for a friendly society, pension funds and charities.

GLASGOW

INVESTMENT MANAGERS

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Regulated by IMRO