Shires Income plc

Annual Report 2007

Managed By

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INVESTMENT MANAGERS

Shires Income plc

About Your Trust

Trust Objective

The Company aims to provide shareholders with a high level of income, together with growth of both income and capital from a portfolio substantially invested in UK equities

Assets

Portfolio Assets

Shires Income had total investments of £138 6 million as at 31 March 2007 These investments were invested by the Managers, Glasgow Investment Managers Limited ("Glasgow"), in what they believe is the appropriate way of achieving the Company's objectives Of the total investments, £106 2 million was invested in ordinary shares, £1 7 million in convertible securities and £30 7 million in preference shares The Company's investments will therefore tend to perform well when ordinary shares rise, particularly when higher yielding ordinary shares do better than lower or nil paying ordinary shares, and vice versa Convertibles will tend to rise or fall with equities but to a lesser degree Preference shares will tend to be more sensitive to interest rate movements, rising in value as rates fall or falling in value as rates rise

Shires Smaller Companies plc

Rather than the Company holding a number of smaller companies shares, Shires Income invests indirectly in this part of the equity market through one holding in Shires Smaller Companies which is also managed by Glasgow It has an attractive dividend yield

Glasgow Investment Managers Limited

Shires Income owns 49 9% of its Managers, Glasgow This is included in the portfolio as an unquoted equity The original investment was made in 1990 The other 50 1% is owned by Sutherland Holdings, a company principally owned by the retired founder of Glasgow and current and former staff

Earnings and Dividends

The Company aims to provide a high level of income Based on the proposed final dividend, the Company will have paid out for the March 2007 financial year dividends totalling 19 25p Using the share price at the end of the year of 310 75p this gives a yield of 6 2% Given that the UK equity market currently yields around 2 8%, the assets of Shires Income have to yield a great deal more for the dividend to be paid from the surplus of income over expenses There is, therefore, a bias in the portfolio to high yielding ordinary shares One of the reasons 23 4% of total investments are invested in convertible securities and preference shares is that they typically provide more income than ordinary shares

Dividends from ordinary shares, convertibles and preference shares are not the only way that the Company generates income It is also achieved by writing put and call options on shares owned, or shares the Managers would like to own By doing so, the Company generates premium income

Income can also be derived from owning appreciating shares in the dealing subsidiary, Wiston Investment Company Limited On an occasional basis, the Managers identify stocks that may rise in the short term This activity is deemed to be trading and gains are treated as income rather than capital In the past, the Company's investment in Glasgow has also produced healthy dividends It is hoped that this will be a source of income again in the future

The Directors and Managers put a great deal of emphasis on being able at least to maintain the current level of dividend This would, however, be put at risk if the dividends paid by UK companies in general declined, or the Managers were not able to take advantage of option writing opportunities, or trading profits were not generated in Wiston There is a sizeable revenue reserve, equivalent to 15 4 p per share (excluding IFRS dividend adjustment), which could be drawn on if required

Gearing

In the long term, to help income generation and capital growth, the Company has borrowed to invest in the assets described above This is undertaken in the belief that equities will produce a greater total return than the cost of the borrowing over time Shires Income utilises two methods of borrowing The first is a debenture, which has its interest cost and capital repayment linked to inflation (RPI) This debenture will be redeemed between 2008 and 2010 The other is by bank loans and overdrafts At 31 March 2007 the total gearing was 38 8% with equity gearing 8 0% Therefore the Company will be more sensitive to equity market rises and falls than if it were not equity geared

Contents

Company Administration

Managers and Secretaries
Glasgow Investment Managers Limited
Sutherland House
149 St Vincent Street
Glasgow G2 5DR
(Authorised and regulated by the Financial Services Authority)

Auditors
KPMG Audit Plc

Solicitors
Maclay Murray & Spens LLP

Stockbrokers
JPMorgan Cazenove Limited

Bankers
HSBC Bank plc

Registrars and Transfer Office
Lloyds TSB Registrars Scotland
PO Box 28506
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Telephone 0870 601 5366

Registered Office
165 Queen Victoria Street
London EC4V 4DD

Company Registration Number
386561 (England)

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

Investment policy

The Company invests principally in UK quoted companies and convertibles with above average yields Stocks are selected according to their valuation compared to the FTSE All-Share Index and the relevant industrial sector

Gearing is used with the intention of enhancing long-term returns

Benchmark

FTSE All-Share Index (Total Return)

Capital structure and voting rights

Number of ordinary shares of 50p each in issue	**29,697,580**
3 5% cumulative preference shares of £1 each	**50,000**
5% Index-Linked Debenture 2008/2010	**£27,459,000**

Each of the ordinary shares and the cumulative preference shares has equal voting rights

Dividends

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

Continuation Vote

The Company's articles of association do not require shareholders to vote periodically on whether or not to carry on as an investment trust Consequently, the Company has no termination date

Management Company and Fee

Glasgow Investment Managers Limited ('*Glasgow*') acts as Managers and Secretaries to the Company under a management contract which is terminable by one year's notice on either side The fee is 0 45% for funds up to £100 million and 0 40% for funds over £100 million *(see note 3 to the financial statements on page 36)*

Glasgow is principally owned by its retired founder and current and former staff, with Shires Income plc currently holding the remaining 49 9% interest

SIPPs, ISAs and PEPs

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

AIC

The Company is a member of the Association of Investment Companies (AIC)

Financial Information

Highlights

	As at 31 March 2007	As at 31 March 2006	% change
Total Investments	£138.6m	£131.7m	5.2
Ordinary shareholders funds	£99.8m	£97.5m	2.3
Market capitalisation	£92.3m	£93.0m	(0.8)
Net asset value (NAV) per ordinary share	336.0p	328.4p	2.3
Ordinary share price	310.75p	313.5p	(0.9)
(Discount) (ordinary share price to adjusted NAV)*	(4.5%)	(1.4%)	–
Revenue return per ordinary share	20.16p	19.51p	3.3
Dividends per ordinary share	19.25p	19.25p	–
Total expense ratio	0.93%	1.06%	–
Gearing	38.8%	35.1%	–

Year's highs and lows	Year to 31 March 2007		Year to 31 March 2006	
	High	Low	High	Low
NAV per ordinary share[1]*	325.5p	292.4p	317.9p	250.1p
Ordinary share price[1]	323.0p	291.3p	324.0p	240.5p
Premium/(Discount)[1]*	6.2%	(4.5%)	4.9%	(2.5%)

Performance – Total Return

	1 year %	3 years %	5 years %
Shires Income plc			
– Net asset value*	8.9	75.4[2]	29.1
– Share price	5.5[3]	72.6[3]	39.2[3]
FTSE All-Share Index (Benchmark)	11.1[4]	64.4[4]	51.1[4]

Discrete Annual Performance

Year to	31 March 2007	31 March 2006	31 March 2005	31 March 2004	31 March 2003
Shires Income plc	5.9%	27.0%[2]	29.8%	74.4%	(53.9)%

Bid to bid closing share price, net income re-invested

Past performance should not be seen as an indication of future performance

	As at 31 March 2007	As at 31 March 2006
Net dividend yield		
Shires Income plc[5]	6.2%	6.1%
FTSE All-Share Index (Benchmark)	2.8%	2.9%

Based on IFRS NAV excluding dividend adjustment of 10.45p

[1] *Based on month-end values (measured at mid price)*

[2] *Source Glasgow Investment Managers Limited – Based on fully diluted net asset values*

[3] *Source Fundamental Data for the Association of Investment Companies*

[4] *Source Reuters*

[5] *Based on year end share price and total dividend for the year ended 31 March 2007*

Absolute Performance

Figures are total return and have been rebased to 100 at 31 March 2002
Benchmark FTSE All-Share Index (Total Return)

Relative Performance

Premium/(Discount)

Net Dividend Yield

Chairman's Statement

J Martin Haldane *Chairman*

Highlights

Following three years of double figure returns I am pleased to report that your Company continued to grow in the year to 31 March 2007 albeit at a slower rate than in the previous years. The total return on net assets over the year was 8.9%, as explained below, this compares to a total return of 11.1% for the FTSE All-Share Index, the Company's benchmark.

The Company continues to produce a relatively high dividend yield. Subject to shareholder approval, total dividends will be maintained at 19.25p producing a dividend yield of 6.2% based on the share price at 31 March 2007. This yield is significantly higher than both the Company's benchmark, which yielded only 2.8% at 31 March 2007, and the FTSE High Yield Index which yielded 3.8% at the same date. If approved, the final dividend of 6.05p will be paid on 31 July 2007 to shareholders on the register at close of business on 6 July 2007.

Investment Returns

The Company's total return on net assets was 8.9%. The equity section of the portfolio outperformed the benchmark over the course of the year due to good stock selection and being geared in a rising market. The total return of the Company is less than the FTSE All-Share index due to two factors, first the rising cost of the Index-Linked Debenture Stock as inflation picked up during the year, and secondly the poor performance of the fixed interest market due to the recent rises in interest rates as the Bank of England attempted to keep inflation under control.

Over the year, there was a drop in the rating of the Company's shares in the stockmarket. The discount of the share price to the net asset value increased from 1.4% to 4.5% at 31 March 2007. As a result, the share price total return at 5.5% was lower than the total return on net assets.

Earnings and Dividends

The revenue return per share was 20.16p for the year to 31 March 2007, 3.3% higher than the previous year. Dividends paid in the financial year amounted to 19.25p. This comprises the third interim dividend and final dividend of the 2005/06 financial year totalling 10.45p and the first and second interim dividends of the 2006/07 financial year totalling 8.80p. The third interim dividend for 2006/07 paid on 30 April 2007 and the proposed final dividend for the 2006/07 financial year payable on 31 July 2007 will be included in the financial statements for the year ended 31 March 2008.

Portfolio Profile

Total gearing increased from 35.1% to 38.8% during the year with equity gearing rising from 3.9% to 8.0% of net assets, due principally to a net investment of £4.6 million into equities and the strong performance of equities compared to fixed interest securities during the year. The relative underperformance of the fixed interest market is highlighted by the fact that gearing in preference shares dropped in the year from 31.2% of net assets to 30.8% at 31 March 2007 despite there being a net investment into preference shares of £2.6 million. The investment in preference shares, however continues to generate a high yield for the Company and makes a major contribution to the high level of income distributed to shareholders.

Outlook

Global economic prospects are somewhat polarised this year, with upgrades for China, Europe and many emerging economies but slowing activity in the USA and Japan. The UK economy is forecast to grow at between 2.5% and 3.0% due to strong business and public spending. The economic background, apart from the US dollar is reasonably supportive to UK companies and both corporate profits and dividends are expected to grow in the year ahead, albeit at modest levels.

For investors, the key economic news in 2007 is likely to be changes in inflation and interest rates. The recent UK inflation rate of 3.1%, measured under the Consumer Prices Index, exceeded the Government's 2% target, and for the first time in ten years forced the Bank of England to send a letter of explanation to the Chancellor. Prices rose across a broad range of goods and services, and interest rates are expected to increase to at least 5 75% in response The uncertainty created may cause periods of stock market volatility, perhaps not surprising after four years of solid appreciation While investors wait for the current peak in the interest rate cycle there are still undervalued income and growth opportunities in equities

On Company specific matters the forthcoming year sees the obligation arise to make the first repayment of the 5% Index-Linked Debenture Stock in March 2008 The cost of refinancing this debenture is likely to be somewhat less than its present cost which should lead to savings being made by the Company in the future

In relation to the dividend, the Board will keep this under review for the year to 31 March 2008 and while not a forecast of earnings and subject to any unforeseen circumstances, expects the dividend to be at least maintained in the forthcoming year

Board

The Nominations Committee met several times throughout the year and, with the help of an independent recruitment company, recommended Mr Anthony B Davidson's appointment to the Board to which he was appointed on 21 February 2007 Mr Davidson has considerable experience in the investment industry and brings skills complementary to those already available The Board decided that Mr Davidson, as a Chartered Accountant and having previously chaired a number of other audit committees should be appointed Chairman of the Audit Committee with immediate effect The Board recommends the election of Mr Davidson at the forthcoming Annual General Meeting

As described in the Directors' Report on page 18 the Board has undertaken a formal review of its own performance and that of individual Directors in the year to 31 March 2007 The Board recommends to shareholders the re-election of all the other Directors at the forthcoming Annual General Meeting

J Martin Haldane, *Chairman*

Directors

J. Martin Haldane C A (Chairman)
Age 65 Joined the Board in 1996 and Chairman since 1 January 2003 Currently Chairman of Investors Capital Trust PLC and a director of other companies which are unlisted He was formerly Senior Partner in Chiene & Tait Chartered Accountants and Deputy Chairman of The Scottish Life Assurance Company

Mervyn D Couve
Age 59 Joined the Board in 2003 Currently a Consultant with Speechly Bircham Solicitors where he was previously Managing Partner and Senior Partner He is a non-executive director of Ecclesiastical Insurance Company plc and also Trustee of English National Opera Trust He was a former member of the CBI Smaller Firms Council and the CBI Company Law Panel

Anthony B Davidson C A
Age 59 Joined the Board in February 2007 Currently a non-executive Director of JPMorgan European Fledgeling Investment Trust plc, Sun Life Assurance Company of Canada (UK) Limited and a number of life companies within Resolution plc He was previously Chief Executive of Provincial Insurance plc and a Senior Executive Director of TSB Scotland plc

The Hon. Mrs Joanna R Davidson
Age 49 Joined the Board in 2000 Currently Head of Corporate Responsibility for The RBS Group, she is also a director of GIM Holdings Limited Previously Marketing Director of the Chitty Food Group plc and Dawkins International Limited She was also a non-executive director of The UA Group plc

David P Kidd
Age 47 Joined the Board in 2004 He has over twenty years experience in investment management of which three quarters has been in the role of Chief Investment Officer Currently Chief Investment Officer of the private bank, Arbuthnot Latham & Co Limited He is a non-executive director of Martin Currie Portfolio Investment Trust plc and of The Salvation Army International Trustee Company Previously Chief Investment Officer with Chiswell Associates Limited and with The Royal Bank of Scotland's investment management arm

How the Board Operates

Composition

The Board currently consists of five non-executive Directors The table below sets out the number of Directors' meetings (including Committee meetings) held during the financial year and the number of meetings attended by each Director (whilst a Director or Committee member) There were seven Board Meetings during the financial year The Board has appointed Glasgow Investment Managers Limited ('*Glasgow*'), in which the Company has a substantial minority interest, to manage the Company's investment portfolio within the guidelines set by the Board and to provide it with accounting and secretarial services *Glasgow* is not represented on the Board, but key *Glasgow* investment and secretarial staff attend all Board Meetings to report relevant matters to the Board and to be available to answer any queries from Board members

Reporting

Glasgow provides the Board with monthly reports on the Company's activities These include statistics analysing the Company's performance relative to various stockmarket indicators, details of investments purchased and sold results announcements of investee companies, projections of future income from investments and cash management details An important part of the induction process for new Directors is guidance on understanding and appraising such data

Decision Making Process

The Board has a formal schedule of matters specifically reserved to it for decision These are discussed at regular intervals (and at least once a year) and comprise corporate matters, the Company's objective, benchmark investment guidelines, advisors Managers (including the investment in *Glasgow*) and management agreement The Directors meet without the Managers present for part of every Board meeting

Audit Committee

All Directors with the exception of J R Davidson who sits in attendance at the meetings are members of the Audit Committee which is currently chaired by A B Davidson This committee met twice during the year The external auditors attended one of these meetings part of which was conducted without the Managers being present

Management Engagement Committee

All Directors with the exception of J R Davidson, who sits in attendance at the meetings, are members of the Management Engagement Committee which is chaired by J M Haldane This committee met once during the year

Nominations Committee

All Directors with the exception of J R Davidson who sits in attendance at the meetings are members of the Nominations Committee which is chaired by J M Haldane This committee met four times during the year

	Board of Directors		Audit Committee		Management Engagement Committee		Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Director								
J M Haldane[1] *Chairman*	7	7	2	2	1	1	4	4
H N Buchan[2]	2	1	1	1	–	–	–	–
M D Couve	7	7	2	2	1	1	4	4
A B Davidson[3]	1	1	–	–	1	1	–	–
J R Davidson	7	6	2	2	1	–	4	3
D P Kidd	7	6	2	1	1	1	4	3

[1] *Chairman of Management Engagement Committee and Nominations Committee*

[2] *Resigned 7 July 2006*

[3] *Appointed 21 February 2007 and Chairman of the Audit Committee*

Investment Managers' Review

Background

The twelve months to 31 March 2007 represented another satisfactory year for UK equity investors Over the period the total return on the FTSE All Share index was 11 1%, an outcome which was well ahead of fixed interest at 0 6% and cash at 5 0% In a repeat of last year's trend smaller and medium sized companies outperformed the FTSE 100 stocks The FTSE 100 underperformed the All-Share Index with a total return of 9 3% as the weakness in the dollar affected larger companies

The year was characterised by strong global economic growth but growing concerns about the upward direction of inflation and interest rates When the stock market suffered a short term setback in the second quarter of 2006, it was principally caused by concerns of economic overheating As the year progressed, signs emerged of a slowdown in the US and Japanese economies while Europe, China and many emerging economies continued to be upgraded by economists

At the corporate level, UK results were generally encouraging with increased dividend payments to shareholders The strong merger and acquisition trend carried through from 2006 into 2007 and further supported share prices The size of the deals increased, and the bid targets included well known UK companies such as Alliance Boots and Gallaher Fixed interest investments suffered in comparison to equities as they were adversely affected by increasing interest rates

Portfolio Strategy

During the year exposure to listed equities was increased from 92 8% to 101 8% of net assets by net additional investment of £4 6m The increase in equity investments was partly funded from the sale of convertibles and from an increase in the overall gearing During the year the gearing increased from 35 1% to 38 8% of net assets

Revenue Account

The table below sets out the main sources of the Company's income for the last five years

Financial Year End	2007	2006	2005	2004	2003
	%	%	%	%	%
Ordinary Dividends	50 6*	44 3	45 5	51 5	56 6
Preference Dividends	28 6	25 6	26 9	16 4	13 4
Shires Smaller Companies plc	7 2	11 2	11 4	11 7	11 5
Fixed Interest and Bank Interest	1 6	1 9	1 5	2 7	5 0
Glasgow Dividends and Interest	0 0	0 0	0 0	0 3	0 8
Preference Share Switching	0 0	0 0	6 5	6 8	9 2
Dealing Subsidiary	3 1	2 2	(1 5)	7 1	0 2
Traded Option Premiums	8 9	14 8	9 7	3 5	3 3
	100 0	100 0	100 0	100 0	100 0
Total Income (£000s)	8 062	7,741	7 611	7,392	7,542

* includes special dividends 2007 – 3 5% of total income

The Revenue Account Table identifies the sources of the portfolio's income and the proportion generated from each area In 2007, the largest source of income was dividends from ordinary shares including Shires Smaller Companies, as investee companies increased their dividends This was followed by dividends from preference shares Together these investments generated 86 4% of total income

The balance of the income, at 13 6% came from debt securities bank interest, traded option writing and from Wiston Investment Company Limited, our dealing subsidiary In the forthcoming financial year it is expected that income from traded options, market conditions allowing, will increase

The total income generated by the portfolio increased from £7 74m to £8 06m during the year

Equities

Over the year to 31 March 2007 the listed equity portfolio increased in value from £90 5m to £101 6m and outperformed its benchmark, the FTSE All-Share index The portfolio benefited from its overweight position in medium and smaller sized companies and from being underweight in FTSE 100 stocks At a sector level, the portfolio maintained very low exposures to Oil & Gas and Pharmaceuticals which was positive for performance as both sectors were weak in the period Finally, two of the holdings were the subject of bids Gallaher Group was bid for by Japan Tobacco and AWG the water utility, was acquired by private equity

By sector, Financials continued to account for the largest part of the equity portfolio standing at 43% by the year end During the year the holding in Alliance & Leicester was sold after a period of takeover speculation had driven the shares to an overvalued level A new holding was established in The Royal Bank of Scotland Group where dividend and earnings growth exceeded both the market and its peers The life assurance sector also provided some attractive investment opportunities The holding in Chesnara was increased and the holding in Friends Provident was switched into Prudential

There was a marked change to Consumer Services exposure which over the year declined from 16 6% to 10 5% of the equity portfolio Price competition in general retail was relentless and, along with increasing sales on the internet had a negative effect on many retailers Although both Woolworths and DSG International are well managed companies, they operate in increasingly difficult markets Woolworths was sold due to the highly seasonal nature of their sales and competition from retailers such as Tesco and Argos The holding in DSG was sold due to price deflation and concern about the impact of internet retailing on their UK margins By 31 March 2007, the portfolio held only one retail stock, Topps Tiles for its cash generation and yield The largest investment in Consumer Services was the transport company, Arriva

Arriva is a leading operator of passenger transport in Europe

Utilities made a positive contribution to performance over the period, helped by the £2 2bn private equity bid for AWG During the year investments in utilities increased from 6 8% to 8 4% of the portfolio with a new holding added in Pennon The news flow on Severn Trent was positive with the demerger of its waste management company Biffa, well received by the stock market The holding in Biffa was sold in December 2006, about two months after the demerger and for a much higher share price

The strong global economy created good trading conditions for Industrial sectors such as engineering, and during the year investments in this area increased from 14 5% to 15 3% of total listed equities New holdings included the engineers Titan Europe and Weir Group A small holding was also established in Tanfield, a manufacturer of zero emission vehicles BBA followed the trend of businesses refocusing by demerging its operations into two companies, Fiberweb and BBA Aviation The holding in Fiberweb was sold shortly after the demerger while BBA Aviation was retained because it offers better growth prospects

Weir Group – Assembly of a FZPM 2000 pump for a pipeline in Brazil

Once again this year, the Company's investment in Shires Smaller Companies plc was helpful Share price total return over the year was 17 0%, ahead of the Smaller Companies Index total return of 15 1%, and 5 9 percentage points ahead of the total return from the FTSE All-Share Index At the year end, the shares yielded 4 9%

Mackintosh High Income OEIC

In March 2006, *Glasgow* launched an OEIC (open ended investment company) called Mackintosh High Income Fund with a target yield of 5 5% Shires Income invested a total of £5 million in the new fund in March and April 2006 and in the year to 31 March 2007 the holding outperformed its benchmark and paid the target yield A year on from the launch, the Mackintosh High Income Fund is established and growing, and Shires Income has reduced its holding by £0 8m to £4 6m

Convertibles

In the period under review there were two transactions in the convertible portfolio In April 2006, the Slough Estates 8 25% cumulative convertible issue was subject to final conversion into Slough Estates ordinary shares The ordinary shares were sold later in the year The holding in SMG 6 5% convertible loan stock was sold due to the risk that the company might breach its banking covenants, after a sharp fall in profits

Investment Managers' Review *(Continued)*

Preference Shares

The preference share portfolio is an important source of income for the Company and as at 31 March 2007 accounted for £30 7m out of £138 6m of gross assets During the year, a number of changes were made to the portfolio to enhance income generation, including the disposal of Bellway 9 5% and re-investment in Standard Chartered 8 25% preference shares and the sale of Ecclesiastical 8 625% with the proceeds invested into General Accident 7 875%

Investment Performance Analysis

	2007 Contribution %
FTSE All-Share Index total return	11 1
Equities (inc Shires Smaller Companies) relative to benchmark	2 6
Equity Gearing	0 1
Fixed Income portfolio, total return	-1 1
Unlisted Investments, including *Glasgow*	1 0
Option writing	-0 2
Hedging activity	-0 3
Index-Linked Debenture Stock	-2 6
Other Financing Costs and Expenses	-1 7
Total Return on Net Assets	**8 9**

The total return of the Company during the year was at 8 9% below that of the FTSE All-Share Index which returned 11 1% Stock selection was good, the equity portfolio outperforming the benchmark by 2 6%, but the fixed interest portfolio was disappointing contributing -1 1% The other major drag on performance was the rising cost of the Index Linked Debenture Stock Unlisted Investments, including the company's investment in *Glasgow*, were a positive, contributing 1 0%

Prospects

The UK economy continues to perform more strongly than forecast, causing problems with inflation which will probably require higher interest rates to contain it The uncertainty regarding interest rates has already caused two temporary stock market setbacks and may continue to affect investor confidence in the year ahead Aside from the macroeconomic risks, the stock market should continue to benefit from merger and acquisition activity while UK companies are still reporting satisfactory earnings and dividend growth After four years of strong total returns from equities investors should be prepared for more modest share price appreciation and higher volatility

Distribution of Assets and Liabilities

	Valuation at 31 March 2006		Movements during the year			Valuation at 31 March 2007	
			Purchases	Sales	Appreciation/ (Depreciation)		
	£000	%	£000	£000	£000	£000	%
Listed Investments							
Ordinary Shares	90 493	*92 8*	40,240	(35,663)	6 581	101 651	101 8
Convertibles	6,955	*7 1*	–	(3,890)	(1 334)	1 731	1 7
Preference Shares	30,406	*31 2*	15,234	(12,593)	(2 320)	30 727	30 8
Portfolio Hedge Instruments	362	*0 4*	–	(83)	(279)	–	–
	128,216	*131 5*	55,474	(52,229)	2 648	134 109	134 3
Unlisted Investments	3,498	*3 6*	–	–	965	4 463	4 5
	131,714	*135 1*	55,474	(52,229)	3 613	138 572	138 8
Current assets	3 357	*3 4*				4,019	4 0
Current liabilities	(11,048)	*(11 3)*				(24 465)	(24 5)
Non current liabilities	(26,499)	*(27 2)*				(18,306)	(18 3)
NET ASSETS	97,524	*100 0*				99,820	100 0
NET ASSET VALUE PER ORDINARY SHARE	328 4p					336 0p	

Sector Analysis of Listed Equity Portfolio (based on value of Ordinary Shares above)*

Sector Analysis of Listed Equity Portfolio relative to the FTSE All-Share Index*

* *Both graphs above reflect the sector composition of Shires Smaller Companies' listed equity portfolio*

Portfolio of Investments

as at 31 March 2007

	Market value £000		% of Total investments	
ORDINARY SHARES				
Shires Smaller Companies	11,780	(10,640)	8.5	(8.1)
Vodafone	5,723	–	4.1	–
Legal & General	5,562	(4,961)	4.0	(3.8)
Lloyds TSB Group	5,175	(5,088)	3.7	(3.9)
Pennon Group	4,906	–	3.5	–
Prudential	4,710	–	3.4	–
Mackintosh High Income OEIC	4,567	(1,187)	3.3	(0.9)
Bradford & Bingley	4,540	(4,990)	3.3	(3.8)
British American Tobacco	3,970	(2,925)	2.9	(2.2)
Arriva	3,718	(3,075)	2.7	(2.3)
Top Ten Investments (2006 Comparatives shown in Brackets)	54,651	(32,866)	39.4	(25.0)
Severn Trent	3,691		2.7	
Rio Tinto	3,626		2.6	
Scottish & Newcastle	3,306		2.4	
Rentokil Initial	3,255		2.3	
Royal Bank of Scotland Group	2,975		2.1	
BBA Aviation	2,865		2.1	
Provident Financial	2,812		2.0	
Dawnay Day Carpathian	2,635		1.9	
AIH Resources	2,434		1.8	
EMI Group	2,273		1.6	
Jardine Lloyd Thompson	2,199		1.6	
Titan Europe	1,808		1.3	
Chesnara	1,790		1.3	
Holidaybreak	1,758		1.3	
Highway Insurance Holdings	1,691		1.2	
Tate & Lyle	1,609		1.2	
Topps Tiles	1,564		1.2	
Weir Group	1,392		1.0	
Tanfield Group	1,359		1.0	
Others (6)	1,958		1.4	
	101,651		73.4	
CONVERTIBLES				
BAE Systems 7.75%	928		0.6	
Balfour Beatty 10.75p	803		0.6	
	1,731		1.2	
PREFERENCE SHARES				
General Accident 7.875%	6,641		4.8	
Royal & SunAlliance 7.375%	5,788		4.2	
Aviva 8.75%	4,569		3.3	
Standard Chartered 8.25%	4,348		3.1	
Abbey National 10.375%	4,112		3.0	
National Westminster 9%	1,743		1.3	
General Accident 8.875%	1,307		1.0	
Premier Farnell 89.2%	753		0.5	
HBOS 6.475%	740		0.5	
HBOS 9.25%	726		0.5	
	30,727		22.2	
TOTAL LISTED PORTFOLIO	134,109		96.8	
Glasgow Investment Managers Limited	3,239		2.3	
Other Unlisted (3)	1,224		0.9	
	4,463		3.2	
TOTAL INVESTMENTS	138,572		100.0	

All investments are listed on the London Stock Exchange apart from Glasgow and those marked as unlisted. The Mackintosh High Income OEIC is not listed on the London Stock Exchange but the price of units is quoted on a daily basis in the Financial Times.
Included in "Others" under Ordinary Shares are investments totalling £281,000 which are listed in the USA.

Historical Record

Capital History[1]

As at 31 March	Total assets less current liabilities £m	Ordinary Shareholders' funds £m	Net asset value per Ordinary Share Undiluted p	Net asset value per Ordinary Share Fully diluted p	Share price p	Premium/ (Discount) (based on adjusted NAV) %	Actual Gearing %
1997	114 8	90 7	325 0	317 6	293 5	(7 6)	29 8
1998	158 6	134 3	475 7	462 5	424 5	(8 2)	21 3
1999	164 2	139 0	490 7	477 7	446 0	(6 6)	22 1
2000	172 4	134 3	452 8	452 8	399 0	(11 9)	28 8
2001	164 6	126 0	425 1	425 1	413 0	(2 8)	37 1
2002	148 1	108 9	366 9	366 9	332 5	(9 4)	43 7
2003	75 4	51 2	172 7	172 7	141 5	(18 1)	50 3
2004	93 0	68 1	229 5	229 5	224 0	(2 4)	43 4
2005	103 7	81 1	272 9	272 9	266 0	1 3	42 5
2006	120 9	97 5	328 4	328 4	313 5	(1 4)	35 1
2007	118 1	99 8	336 0	336 0	310 75	(4 5)	38 8

Cumulative Performance[2,3]

As at 31 March	NAV* (fully diluted)	NAV total return[4]	Share price	Share price total return[4]	Benchmark	Benchmark total return[4]
1997	100 0	100 0	100 0	100 0	100 0	100 0
1998	145 6	152 2	144 6	151 9	132 5	136 5
1999	150 4	163 6	152 0	166 1	137 9	145 7
2000	142 6	159 9	135 9	153 5	148 1	160 1
2001	133 8	156 4	140 7	166 3	129 1	142 9
2002	115 5	141 8	113 3	140 5	121 8	138 4
2003	54 4	72 0	48 2	64 9	82 7	97 1
2004	72 3	104 4	76 3	113 4	104 6	127 2
2005	82 7	129 5	90 6	146 6	117 1	117 0
2006	100 1	167 2	106 8	185 4	145 2	188 2
2007*	102 5	181 3	105 9	195 6	152 9	202 4

Revenue History[1]

Year ended 31 March	Fully diluted revenue earnings per ordinary share p	Rebased[3]	Dividends per ordinary share p	Rebased[3]	Retail price index[3] p	Total expense ratio[6] %
1997	15 70	100 0	16 80	100 0	100 0	0 79
1998	19 64	125 1	17 50	104 2	106 1	0 78
1999	17 57	111 9	18 00[5]	107 1	108 3	0 74
2000	19 56	124 6	18 65	111 0	111 2	0 69
2001	19 27	122 7	19 00	113 1	113 7	0 76
2002	19 35	123 2	19 25	114 6	115 2	0 84
2003	19 72	125 6	19 25	114 6	118 7	1 11
2004	19 45	123 9	19 25	114 6	121 8	1 22
2005	19 58	124 7	19 25	114 6	125 7	1 11
2006	19 51	124 3	19 25	114 6	128 7	1 06
2007	20 16	128 4	19 25	114 6	131 5	0 93

* *Based on IFRS NAV reduced by the dividend adjustment*

[1] *Data supplied by Glasgow Investment Managers Limited*

Data supplied by Fundamental Data for the Association of Investment Companies

Rebased to 100 at 31 March 1997

[4] *Total return figures are based on reinvestment of net income*

[5] *Additionally, a special dividend of 0 65p per share was paid*

Annual operating costs, excluding interest, divided by average shareholders' funds.

Analysis of Shareholders
as at 31 March 2007

Number of Shareholders (4,847) **Number of Shares Held (29,697,580)**

Useful Information for Shareholdersi

Annual General Meeting
This year's Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on 6 July 2007 at 12 noon

Financial Calendar for 2007

6 July	Annual General Meeting
31 July	Ordinary Shares final dividend 2006/2007 payable
28 September	3 5% Preference Shares half-year dividend payable
31 October	Ordinary Shares first interim dividend 2007/2008 payable
October/November	Interim results announced
October/November	Interim Report published

Price and Net Asset Value information
The price of the ordinary shares is quoted in the *Financial Times*, *The Daily Telegraph* *The Herald* and *The Times* The Company's Net Asset Value is calculated weekly and announced to the London Stock Exchange

The Glasgow Investment Collection
The Glasgow Investment Collection was launched in January 2004 It brings together four cost effective savings products in a single brochure These products allow you to invest in the stockmarket, to save for your future or to make Lump Sum Investments The four products are

- **The Glasgow ISA** a tax efficient plan
- **The Glasgow TrustPlan** a low cost regular savings plan
- **The Glasgow Children's Plan** a savings plan which allows you to invest in the stockmarket for your children grandchildren or other child
- **The Glasgow PEP** a tax efficient savings plan which allows you to transfer any existing PEP investments you may hold

All four products which make up The Glasgow Investment Collection invest in a selection of the investment trusts Glasgow Income Trust plc Shires Income plc and Shires Smaller Companies plc, the investment trusts managed by *Glasgow*

The Glasgow Investment Collection offers

- Regular monthly savings, from as little as £20 per month,
- Lump sum investment from £200,
- PEP or ISA transfers,
- A share exchange scheme,
- Dividend reinvestment

Further information may be obtained from *Glasgow* on FREEFONE 0800 435 797 or www glasgowinvestmentmanagers co uk

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 The Causeway, Worthing West Sussex BN99 6DA

Shareview website

The Registrars provide an on-line service that enables shareholders to access details of their shareholdings A shareholder wishing to view that information, together with additional information such as indicative share prices and details of recent dividends, should visit www shareview co uk

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 whose shares are held in nominee names may if appointed as a proxy by the nominee company attend general meetings and speak when invited by the Chairman

Directors' Report

Status of the Company

The Company, which was incorporated in 1929, has received approval as an investment trust by the Inland Revenue for all accounting periods up to and including 31 March 2006 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 Companies The Company is an investment company within the meaning of Section 266 of the Companies Act 1985 So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company

Business Review

Activities

The Company is an investment trust Its subsidiary undertaking Wiston Investment Company Limited operates as an investment dealing company The objective of the Company is set out on page 3 of the report

The Company has a 49 9% interest in its managers and secretaries *Glasgow* an unlisted company and a 18 1% interest in Shires Smaller Companies plc, a listed investment trust managed by *Glasgow* It also has a holding in the Mackintosh High Income OEIC which is also managed by *Glasgow* Further details on this investment can be found in note 11 to the financial statements on page 40

Results and Dividends

The financial statements for the year ended 31 March 2007 appear on pages 29 to 45 Dividends paid in the year amounted to 19 25p

A third interim dividend of 4 4p was declared on 5 March 2007 payable on 30 April 2007 A final dividend of 6 05p per ordinary share is proposed Under International Financial Reporting Standards (IFRS) both these dividends will be accounted for in the financial year ended 31 March 2008

Current and Future Development

A review of the business is given in the Chairman's Statement and the Investment Managers' Review Key performance indicators ("KPIs) are shown in the Financial information on page 4 with historical performance being shown on page 15 These KPIs include net asset value total return, share price total return and the premium/discount at which the shares trade The Board also considers the marketing and promotion of the Company including effective communications with shareholders, which is explained in more detail in the Relations with Shareholders section on page 21 The Board considers the future direction of the Company at an annual strategy meeting where a wide discussion takes place on development and strategic direction The Company's brokers, JP Morgan Cazenove, present to the Board during the course of the year and cover the topics of sector development perception of the Company and relevant strategic issues

Principal Risks

The principal risks facing the Company relate to the Company's investment activities and include market risk interest rate risk, credit risk and liquidity risk An explanation of these risks and how they are managed are contained in note 19 to the accounts on page 44

Directors

The Directors are shown on page 8 All held office throughout the year with the exception of A B Davidson J M Haldane having served as a Director since 1996 retires, and being eligible offers himself for re-election J R Davidson, being deemed as connected with the Company's Managers is explained on page 19 retires, and being eligible, offers herself for re-election M D Couve and D P Kidd retire from office by rotation and, being eligible, offer themselves for re-election A B Davidson having been appointed since the last Annual General Meeting retires from office and offers himself for election

The Board has reviewed its collective performance and that of each individual member and believes it continues to operate in an efficient and effective manner Given this, the Board recommends to shareholders the re-election of all Board members

Directors' Interests in Shares

The interests of the Directors in office at 31 March 2007 in the ordinary shares of 50p each in the Company were as follows

	Beneficial Interest		Non-beneficial interest	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006
M D Couve	2,000	2,000	–	–
A B Davidson	5,000	–	–	–
J R Davidson	4,000	4,000	–	–
J M Haldane	11,800	11,800	720	720
D P Kidd	1,000	1,000	–	–

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 1 April 2007 and 18 May 2007

Corporate Governance

The Board has 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 set out in the AIC Code of Corporate Governance (the "AIC Code") which was issued in February 2006 and has been endorsed by the Financial Reporting Council

The Board

The Board currently consists of five non-executive Directors There is no Chief Executive position within the Company as day to day management of the Company's affairs has been delegated to the Managers, Glasgow Investment Managers Limited ("*Glasgow*") 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 Biographies of the Directors appear on page 8 which demonstrate the wide range of skills and experience each bring to the Board Each Director has signed a letter of appointment to formalise in writing the terms of his/her engagement as a non-executive Director Copies of these letters are available for inspection at the registered office of the Company and at the offices of *Glasgow* during normal business hours and will also be available for fifteen minutes prior to the Annual General Meeting on 6 July 2007

Each of the Directors is entitled to be indemnified by the Company against all costs, charges, losses damages and expenses incurred or arising out of any contract, act deed, matter or thing which is made done entered into or executed by the Directors respectively on the Company's behalf The Directors shall be reimbursed by the Company for all reasonable expenses incurred by them in relation to legal proceedings or arbitration on account of the Company or in the carrying out of their respective offices However this indemnity does not extend to costs, losses and expense occurring as a result of the Directors' respective negligence default, breach of duty or breach of trust Each Director is chargeable only for the amount of money he actually receives A Director shall be liable for his own acts, receipts, neglects or defaults, but not those of his fellow Directors The Directors are not respectively answerable for (1) any banker, broker, collector or other person with whom or into whose hands any of the Company's property or moneys may be deposited or come (2) the insufficient title to any security or investment acquired from time to time by or on behalf of the Company, (3) the insufficiency of any investment or security in which any of the Company's moneys are placed by order of or under the Directors' authority, or (4) any loss or damage which occurs in the execution of their respective offices, unless through their own respective negligence default or breach of duty or trust The foregoing rights are included in the Articles of Association of the Company a copy of which is available for inspection at the same times and in the same manner as the Directors' letters of appointment

The Board regularly reviews the independence of its members and having due regard to the definitions and current AIC guidelines on independence, considers all Directors to be independent of the Company's Managers J R Davidson is deemed by the AIC Code to be connected with the Company's Managers, *Glasgow* in which the Company has a 49 9% minority interest, as she is a non-executive Director of GIM Holdings Limited the immediate parent company of *Glasgow* The Chairman J M Haldane, has sat on the Board for eleven years The Board has considered the independence of these two Directors with particular care In relation to Mr Haldane, the AIC Code indicates that long serving Directors are able to be deemed is independent irrespective of length of service The Board feels Mr Haldane displays all the characteristics of independence and can be relied upon so to act at all times Mrs Davidson is prima facie not considered independent under the AIC Code due to her Directorship of GIM Holdings Limited, the immediate parent company of the Managers However it should be noted that Mrs Davidson sits on the Board of this company as the representative of Shires Income plc and is there to put forward the views of Shires Income plc as opposed to being a representative of the Managers on the Board of Shires Income plc Given this and the fact that the Board believes Mrs Davidson displays all the characteristics of independence when dealing with the Managers the Board believes Mrs Davidson to be independent In order to comply with the AIC Code Mr Haldane and Mrs Davidson will be subject to re-election this year and on an annual basis thereafter

The AIC Code provides that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors In order to review its effectiveness, the Board carries out a process of formal self appraisal The Directors consider how the Board functions as a whole and also review the individual performance of its members This process is led by the Chairman and encompasses quantative and qualitative measures of performance implemented by way of an evaluation survey questionnaire and Board discussion The appraisal of the Chairman is carried out via the remainder of the Board who collectively review the performance of the Chairman This process has been carried out in respect of the year under review and will be conducted on an annual basis The review concluded that the Board is functioning well and there are no issues of concern

The Board has appointed *Glasgow* to manage the Company's investment portfolio within guidelines set by the Board and to provide it with accounting and secretarial services *Glasgow* 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 including an annual review of the Managers and the management agreement 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 *Glasgow* as secretaries of the Company

The Board has appointed three committees to cover specific operations as set out on the following pages Copies of the terms of reference of each committee are available on request from *Glasgow* and will also be available at the Annual General Meeting

Audit Committee

The Audit Committee comprises all of the Directors of the Company, with the exception of J R Davidson Mrs Davidson does not sit on the Audit Committee due to her connection with *Glasgow* The Audit Committee meets at least twice per year to coincide with the annual and interim reporting and audit cycle The Chairman is A B Davidson The principal role of the Audit Committee is to review the annual and interim financial statements and the accounting policies applied therein and ensure compliance with financial and regulatory reporting requirements The external auditors, KPMG Audit Plc, whose continued appointment is also reviewed and ratified by the Audit Committee attend at least one meeting of the Audit Committee per year In addition the Audit Committee reviews the independence of the external auditors in relation to the audit of the annual financial statements In completing this review the Audit Committee has taken into account the standing, experience and tenure of the audit Director, the nature and level of service provided and confirmation that they have complied with relevant UK independence guidelines The Audit Committee considers KPMG Audit Plc to be independent both of the Company and the Managers in all respects

The Audit Committee has also reviewed the provision of non-audit services by the auditors which were provided in relation to taxation services The fees for non-audit services amounted to £9 000 for the financial year and the Audit Committee considers these to be cost effective and in no way an impediment to the independence of the auditors

The Audit Committee's responsibilities also include reviewing the arrangements in place within *Glasgow* whereby their staff may in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company

Management Engagement Committee

The Management Engagement Committee comprises all Directors of the Company with the exception of J R Davidson, due to her connection with *Glasgow* The Management Engagement Committee met once in the past year The purpose of the Committee is to review the terms of the agreements with the Managers including, but not limited to, the management fee and also to review the performance of the

Managers in relation to the achievement of the Company's objectives These reviews have been conducted during the year and the outcomes are noted below

Investment Management Agreement

The key terms of the Investment Management Agreement and specifically the fee charged by *Glasgow* and how it is calculated are set out in note 3 to the financial statements The Board believes the fee charged by *Glasgow* is competitive with reference to other investment trusts with a similar investment mandate and is priced appropriately given the level of service provided by *Glasgow*

Performance

The objective of the Company is to provide for shareholders a high level of income together with growth of both income and capital The benchmark is the FTSE All-Share Index (Total Return)

The combination of providing a high level of income together with capital growth while matching the benchmark represents a demanding mandate Performance statistics are shown on page 4 and page 15 contains details of the ten year historical record The outperformance and underperformance have in certain years been considerable The underperformance in the year ended 31 March 2003 has been a particular drag on the longer term statistics However, while recognising the underperformance in the current year which has been discussed with the Managers the Board is encouraged by the outperformance of both the net asset value and share price total return over the last three years This has been achieved while maintaining a yield on the assets which is significantly above the yield on the Company's benchmark

Summary

Taking the above factors into account, it is the opinion of the Board that the continuing appointment of *Glasgow* on the terms agreed, is in the interest of the shareholders as a whole

Nominations Committee

The Nominations Committee comprises all Directors of the Company with the exception of J R Davidson, due to her connection with *Glasgow* The Nominations Committee considers appointments of new Directors undertaking a thorough and open process involving, where appropriate, professional recruitment consultants and committee interviews with candidates identified with the intention that the composition of the Board reflects a breadth of commercial, professional and industrial experience The Nominations Committee met four times during the year resulting in the appointment of Mr Davidson on 21 February 2007

Board Composition

Under the Articles of Association

(i) new Directors are subject to election at the first Annual General Meeting after their appointment (ii) all Directors retire in rotation with the selection criteria set out in the Articles and (iii) a Director who has reached the age of seventy must retire at the end of the next Annual General Meeting following his/her seventieth birthday Directors do not have service contracts or fixed terms in office, but in accordance with the AIC Code they are required to submit themselves for re-election every three years and annually after nine years As the composition of the Board is expected to reflect a breadth of commercial professional and industrial experience new Directors are provided with sufficient guidance and instruction to enable them to understand the economic environment in which investment trusts operate and carry out an effective and objective evaluation of the Company's performance therein

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company and the Company reports formally to shareholders twice a year by way of the Annual and Interim reports All shareholders have the opportunity to attend and vote at Annual General Meetings at which Directors and Managers are available to discuss key issues affecting the Company The Managers have also conducted a series of meetings with shareholders throughout the year to discuss issues relating to the Company and also to give them the opportunity to meet the Board, if requested

As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings In addition at least twenty working days' notice is given to shareholders 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

Under the AIC Code, it is a requirement that the Board reviews the effectiveness of the Company's system of internal controls at least annually, comprising all controls including financial, operational compliance and risk management To achieve this the Board has in place regular review procedures for the identification evaluation and management of significant risks to the Company, to enable full compliance with guidance issued in September 1999 by the Turnbull Committee This process has been in place throughout the year under review and up to the date of approval of the Annual Report

The Board has delegated certain functions The main service providers are *Glasgow*, the Managers and Secretaries, HSBC Bank plc the Custodian, and Lloyds TSB Registrars Scotland the Registrars *Glasgow* 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

Going Concern

The Board considers that the Group has adequate financial resources to continue in operational existence for the foreseeable future For this reason it continues to apply the going concern basis in preparing the financial statements

Responsibilities as an Institutional Shareholder

In October 2002, The Institutional Shareholders' Committee, of which the AIC is a member, published a Statement of Principles setting out best practice guidelines designed to enable institutional shareholders to derive the best possible value out of the companies in which they invest The following General Policy is a statement of the procedures and policies followed by the Board in discharging its responsibilities over all investee companies

General Policy

The Board delegates to the Managers responsibility for selecting the portfolio of investments, within investment guidelines established by the Board after discussion with *Glasgow*, and for monitoring the performance and activities of investee companies *Glasgow* carries out detailed research of investee companies and possible future investee companies by a combination of broker and internally generated research, assisted by independent research consultants The research on a company comprises an evaluation of fundamental details such as financial strength quality of management, market position and product differentiation plus an appraisal of issues relevant to it, including policies relating to socially responsible investment

The Company's voting rights in respect of investee companies are delegated to the Managers who vote at all general meetings of UK companies The Managers consider each case on its individual merits with the primary aim of the use of voting rights being to ensure a satisfactory return from investments

Social, Ethical and Environmental Policy

The Directors recognise that their first duty is to act in the best financial interests of the Company's shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company

In asking the Company's Managers to deliver against these objectives, they have also requested that they take into account the broader social ethical and environmental issues of companies within the Company's portfolio, acknowledging that companies failing to manage these issues adequately run a long term risk to the sustainability of their businesses

More specifically they expect companies to demonstrate ethical conduct effective management of their stakeholder relationships, responsible management and mitigation of social and environmental impacts, as well as due regard for wider societal issues

Glasgow Investment Managers Limited ("*Glasgow*")

Shires Income has a 49 9% stake in GIM Holdings Limited the immediate parent company of *Glasgow* This investment is wholly managed by the Directors of Shires Income plc with *Glasgow* having no control over the management of this interest In order to reflect the views of Shires Income plc, Mrs J R Davidson sits on the Board of GIM Holdings Limited No management fee is charged in respect of the amount of Shires Income plc s net assets attributable to this holding

Shires Smaller Companies plc

The Company has a 18 1% interest in the share capital of this listed investment trust which is also managed by *Glasgow* in the same manner as stated in the above General Policy All of the Directors of Shires Smaller Companies plc are independent of Shires Income plc *Glasgow* has no control over the management of the interest in Shires Smaller Companies plc and does not charge any management fee in respect of the amount of Shires Income plcs net assets attributable to this holding

Mackintosh High Income OEIC

The Company has a 49 5% interest in the Mackintosh High Income OEIC which is also managed by *Glasgow* in the same manner as stated in the General Policy *Glasgow* does not charge any management fee in respect of the amount of Shires Income plc's net assets attributable to this holding

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 18 May 2007 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	2,975,960	10 0
Barclays Plc	1,628,410	5 5
Legal & General Group Plc	1,104,580	3 7
In addition, the Company is aware of the following substantial interests in its ordinary shares as at 18 May 2007		
Glasgow Investment Managers Limited as Plan Manager of The Glasgow Investment Collection	2,423,655	8 2

Directors' Remuneration Report

Under the Directors Remuneration Report Regulations 2002 the report which appears on pages 25 and 26 must be approved by the Directors and laid before the Members of the Company at the same time as the audited financial statements and be the subject of a separate resolution as part of the Ordinary Business at the Annual General Meeting Accordingly, Resolution 2 will be proposed as an ordinary resolution to enable Members either to show that they approve of the contents of the Directors Remuneration Report by voting "For ' the resolution, or to show their disapproval by voting ' Against ' the resolution

Authority to Allot Shares

At the Annual General Meeting in 2006 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 2011 it is considered that it would be appropriate to renew it at the forthcoming Annual General Meeting for a further five year period as permitted by the Companies Act 1985 Accordingly Resolution 10 will be proposed as an ordinary resolution giving the Directors general authority to allot shares in the Company up to a maximum nominal amount of £4 949,596, being approximately one-third of the Company's present issued ordinary share capital As at 18 May 2007, none of the Company's issued shares are held as treasury shares Furthermore there is no current intention to utilise the section 80 authority

Authority to Disapply Statutory Pre-emption Rights

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 11 will be proposed as a special resolution giving the Directors power to allot for cash as if section 89(1) of the Companies Act 1985 did not apply equity securities in connection with a rights issue, open offer etc 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 £742,439 which is equivalent to approximately 5% of the present ordinary share capital of the Company This power will require to be renewed at the Annual General Meeting in 2008

This disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell

Authority to buy back shares

The resolution passed at the last Annual General Meeting to authorise the Company to make market purchases of up to 14 99% of its own ordinary shares expires on the date of the forthcoming Annual General Meeting Accordingly, Resolution 12 will be proposed as a special resolution to renew this authority for a further year The Directors may cancel these shares or hold them in treasury There is no current intention to buy back any of the Company's issued shares

Auditors

Each member of the Board who held office at the date of approval of this Directors report confirm that so far as he/she are aware there is no relevant audit information of which the Company's auditors are unaware, and the members of the Board have taken all the steps that they ought to have taken as a Board to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

The Directors recommend that shareholders vote in favour of all the proposed resolutions which they believe to be in the best interests of shareholders as a whole

By Order of the Board

Glasgow Investment Managers Limited
Secretaries

24 May 2007

Directors' Remuneration Report

Policy

The Board as a whole sets the rates of remuneration payable to each Director following an annual review The Board is aware that remuneration should be comparable to market rates in order to attract and retain Directors of the appropriate calibre and reflect the time spent and responsibilities borne by Directors in exercising the stewardship required of this Company In setting these rates the Board uses information gathered by the Managers *Glasgow*, who monitor rates of Directors remuneration in companies of comparable size and activities and carry out any other relevant research requested by the Board No separate remuneration committee has been constituted in view of the level of work delegated to *Glasgow* Further details of the services provided by *Glasgow* are contained in note 3 to the financial statements

The Board considers that the present policy to remunerate Directors exclusively by fixed fees in cash is appropriate and adequate for the Company in its present and foreseeable circumstances and there are no plans to introduce additional or alternative remuneration schemes

No Director has a service contract with the Company or its subsidiary undertakings although each has a letter of appointment from the Company confirming their appointment and setting out their remuneration as at the date of the letter These letters contain no provisions regarding notice period nor do they make provision for compensation payable upon early termination of the Directors appointment J M Haldane and J R Davidson have appointment letters dated 26 March 2007 Mr Haldane and Mrs Davidson are appointed until the earlier of the AGM in 2007 or the date on which they are required to retire by rotation under the Articles of Association Mr Couve and Mr Kidd both have appointment letters dated 2 August 2004 The date to which M D Couve and D P Kidd are appointed is the earlier of the AGM in 2007 or the date on which they are required to retire by rotation under the Articles of Association Mr Davidson has an appointment letter dated 27 February 2007 and is appointed until the AGM in 2007

Directors' Remuneration Rates

The annual rates of remuneration with effect from 1 April 2006 were £19,500 for the Chairman and £13 000 for each other Director The rates for the forthcoming year commencing 1 April 2007 are £20,250 for the Chairman and £13,500 for each other Director

The Articles of Association of the Company set a maximum aggregate limit within a financial year for non-executive Directors' remuneration This limit, which was last adjusted by special resolution at the Annual General Meeting of the Company held on 30 June 2000, is £70,000 per annum subject to annual upward adjustment on 1 April each year in line with the change in the Retail Price Index from March 2000 The limit for the year ended 31 March 2007 was therefore £81 057

The total fee payable to each Director who served during the present and previous financial years of the Company is shown in the following table (audited)

	Group and Company	
	2007	2006
	£	£
J M Haldane	19,500	18,000
H N Buchan (resigned 7 July 2006)	3,500	12,000
M D Couve	13,000	12 000
A B Davidson (appointed 21 February 2007)	1 400	–
J R Davidson	13,000	12,000
D P Kidd	13,000	12,000
	£63,400	£66 000

The fees payable to M D Couve are paid to a third party There is no performance related remuneration scheme such as an annual bonus, or a long-term incentive scheme such as the granting of share options The Company does not operate a pension scheme for the Directors and no Director received any form of remuneration during the present or preceding financial years other than the fees shown above

Performance

The Absolute Performance graph on page 5 of this Annual Report shows the total return to an investor in the Company as measured both on a share price and net asset value basis both with dividends reinvested during the five years ended 31 March 2007, together with the performance over the same period of the FTSE All-Share Index (Total Return) the benchmark index applicable to this Company

Approved by the Board of Directors on 24 May 2007 and signed on its behalf

J Martin Haldane, Chairman

Directors' Responsibilities in relation to the preparation of the Financial Statements

The Directors are responsible for preparing the Report & Accounts and the group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under the law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements on the same basis

The group and parent company financial statements are required by law and IFRSs as adopted by the EU, to represent fairly the financial position of the group and the parent company and performance of the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing each of the group and parent company financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU subject to any material departures disclosed and explained in the notes to the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

The Directors confirm that the financial statements comply with these requirements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors Remuneration Report and Corporate Governance Statement that comply with that law and those regulations

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

Independent Auditors' Report to the Members of Shires Income plc

We have audited the group and parent company financial statements (the 'financial statements') of Shires Income plc (the 'Company') for the year ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statement, the Consolidated and Parent Company Statement of Change in Shareholders' Equity and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the Company's members as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable UK law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 26

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulations We also report to you if in our opinion, the information given in the Directors' Report is 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 regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority 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 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 Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the group's and company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited

Independent Auditors' Report to the Members of Shires Income plc *(Continued)*

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU of the state of the group's affairs as at 31 March 2007 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view in accordance with IFRSs as adopted by the EU as applied in accordance with the provision of the Companies Act 1985 of the state of the parent company's affairs as at 31 March 2007,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Glasgow
24 May 2007

Consolidated Income Statement

for the year ended 31 March 2007

		2007			2006		
	Notes	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
GAINS AND LOSSES ON INVESTMENTS							
Gains on investments at fair value	11	–	3 843	3,843	–	18,088	18,088
INVESTMENT INCOME							
Dividend income		6 962	–	6,962	6,282	–	6,282
Interest income		115	(96)	19	123	(102)	21
Traded option premiums		715	–	715	1,138	–	1 138
Deposit interest		16	–	16	15	–	15
Other revenue of Financial Assets held for trading		4	–	4	10	–	10
Net gain of dealing subsidiary		250	–	250	173	–	173
	2	8 062	3,747	11,809	7,741	17,986	25,727
EXPENSES							
Investment management fee	3	(268)	(268)	(536)	(246)	(246)	(492)
Other administrative expenses	4	(340)	–	(340)	(409)	–	(409)
Finance costs of borrowings	6	(1 467)	(1 518)	(2,985)	(1 294)	(1 345)	(2 639)
		(2 075)	(1,786)	(3,861)	(1,949)	(1,591)	(3,540)
PROFIT BEFORE TAX		5,987	1,961	7,948	5,792	16,395	22,187
Tax expense	7	–	–	–	–	–	–
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		5 987	1,961	7,948	5,792	16,395	22,187
Earnings per ordinary share (pence)		20 16p	6 61p	26 77p	19 51p	55 24p	74 75p

The total column of this statement represents the Group's Income statement prepared in accordance with IFRS The supplementary revenue return and capital columns are both prepared as explained in the accounting policies on page 33 All items in the above statement derive from continuing operations

All income is attributable to the equity holders of the parent company There are no minority interests

The following table shows the revenue for each year under IFRS less the dividends declared in respect of the financial year to which they relate This table is not part of the Consolidated Income Statement and is unaudited

	Year to 31 March 2007 £000	Year to 31 March 2006 £000
Revenue for the year	5 987	5,792
Dividends for the year	(5,715)[1]	(5,715)[2]
	272	77

[1] Relates to first three interim dividends (each 4 4p) and the final dividend (6 05p) proposed in respect of the financial year 2006/07

[2] Relates to first three interim dividends (each 4 4p) and the final dividend (6 05p) declared in respect of the financial year 2005/06

Balance Sheets

As at 31 March 2007

	Notes	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
NON CURRENT ASSETS					
Ordinary shares		101 651	90 493	101,651	90,493
Convertibles		1 731	6,955	1 731	6 955
Other fixed interest		30 727	30,406	30 727	30 406
Hedge Instruments		–	362	–	362
Unlisted Investments		4,463	3 498	4 463	3,498
	11	138,572	131,714	138 572	131,714
CURRENT ASSETS					
Trade and other receivables		904	30	1 255	92
Accrued income and prepayments		2,038	1 614	2 038	1,614
Financial assets of dealing subsidiary		1 047	501	–	–
Cash and cash equivalents		30	1,212	30	1 212
	13	4 019	3 357	3,323	2,918
CURRENT LIABILITIES					
Trade and other payables		(456)	(733)	(466)	(743)
Short-term borrowings		(14 856)	(10 315)	(14 856)	(10 315)
Index-Linked Debenture Stock		(9,153)	–	(9 153)	–
	14	(24 465)	(11 048)	(24 475)	(11 058)
NON CURRENT LIABILITIES					
Index-Linked Debenture Stock	15	(18,306)	(26 499)	(18,306)	(26 499)
NET ASSETS		99 820	97,524	99,114	97,075
Issued capital and reserves attributable to equity holders of the parent					
Called up share capital	16	14 899	14,888	14,899	14 888
Share premium account	17	18,937	18,936	18 937	18 936
Realised capital reserve	18	35,451	32,667	35 323	32,539
Unrealised capital reserve	18	22,843	23 615	22 962	23,734
Revenue reserve	18	7 690	7,418	6 993	6,978
SHAREHOLDERS' FUNDS		99,820	97 524	99 114	97,075
NET ASSET VALUE PER ORDINARY SHARE (PENCE)		336 0p	328 4p		

Approved by the Board of Directors on 24 May 2007 and signed on its behalf

J Martin Haldane *Chairman*

The accompanying notes are an integral part of these balance sheets

Consolidated & Company Cash Flow Statement

For the year ended 31 March 2007

	Year to 31 March 2007 £000	Year to 31 March 2006 £000
CASH FLOWS FROM OPERATING ACTIVITIES		
Investment income received	6 689	6,550
Deposit interest received	19	12
Investment management fee paid	(534)	(506)
Sales less purchases of current financial assets held for trading	(296)	667
Other cash receipts	884	1,099
Other cash expenses	(392)	(332)
CASH GENERATED FROM OPERATIONS	6 370	7,490
Interest paid	(2,015)	(1 854)
Taxation	–	–
NET CASH INFLOWS FROM OPERATING ACTIVITIES	4,355	5 636
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(55,781)	(55 325)
Sales of investments	51,272	60 125
Purchases of hedge instruments	–	(2,722)
Sale of hedge instruments	83	–
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(4,426)	2 078
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues	63	–
Dividends paid	(5,715)	(5,715)
NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES	(5,652)	(5,715)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,723)	1 999
CASH AND CASH EQUIVALENTS AT START OF PERIOD	(9,103)	(11 102)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	(14 826)	(9,103)
CASH AND CASH EQUIVALENTS COMPRISE		
Cash and cash equivalents	30	1,212
Short-term borrowings	(14 856)	(10 315)
	(14 826)	(9 103)

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Notes	Share Capital £000	Share Premium £000	Realised Capital Reserve £000	Unrealised Capital Reserve £000	Retained Revenue Reserve £000	Total £000
AS AT 31 MARCH 2006		14,888	18,936	32 667	23,615	7,418	97,524
Revenue profits for the year		–	–	–	–	5 987	5 987
Capital profit for the year		–	(51)	2,784	(772)	–	1 961
Equity dividends	9	–	–	–	–	(5 715)	(5,715)
Share Issues	16 & 17	11	52	–	–	–	63
AS AT 31 MARCH 2007		14 899	18,937	35,451	22 843	7 690	99,820

Company Statement of Changes in Equity

For the year ended 31 March 2007

	Notes	Share Capital £000	Share Premium £000	Realised Capital Reserve £000	Unrealised Capital Reserve £000	Retained Revenue Reserve £000	Total £000
AS AT 31 MARCH 2006		14 888	18 936	32 539	23,734	6 978	97 075
Revenue profits for the year		–	–	–	–	5 730	5,730
Capital profit for the year		–	(51)	2,784	(772)	-	1,961
Equity dividends	9	–	–	–	–	(5,715)	(5,715)
Share Issues	16 & 17	11	52	–	–	–	63
AS AT 31 MARCH 2007		14 899	18,937	35 323	22,962	6,993	99,114

Notes to the Financial Statements

1 ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Group and Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect and to the extent that they have been adopted by the European Union

The financial statements have been 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 The principal accounting policies adopted are set out below These policies have been applied consistently throughout the year Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trusts issued by the Association of Investment Companies in December 2005 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP except as referred to in paragraph (d) below

In order better to reflect the activities of an investment trust company and in accordance with guidance issued by the AIC supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend Additionally, the net revenue of the Company is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities All intra-group transactions, balances, income and expenses are eliminated on consolidation The Company has availed itself of the relief from showing a revenue account for the parent company granted under Section 230 of the Companies Act 1985

(c) Investments – Securities held at Fair Value

Investments are recognised or derecognised on the trade date where a purchase or sale is under contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value

The Group's investments are designated as fair value through profit or loss All investments are designated upon initial recognition at fair value and are measured at subsequent reporting dates at their fair value, which for quoted investments is the bid price as at close of business on the balance sheet date

Gains and losses arising from the changes in fair value are included in the net profit or loss for the period as a capital item. Transaction costs are treated as a capital cost

Fair value for unquoted investments is established using appropriate valuation techniques For the Company's interest in Glasgow Investment Managers ("*Glasgow*") the Directors in making the valuation consider amongst other factors, funds under management earnings and dividend yields Investments held by investment dealing subsidiaries are shown as current assets at fair value Realised and unrealised gains and losses arising on these investments are dealt with in the revenue column of the Consolidated Income Statement

1 ACCOUNTING POLICIES (continued)

(d) Income

Dividend Income from equity investments which includes all ordinary shares and also preference shares classified as equity instruments is accounted for when the shareholders' rights to receive payment has been established normally the ex-dividend date

Interest from debt securities which include preference shares classified as debt instruments is accounted for on an effective interest rate basis Any write-off of the premium or discount on acquisition as a result of using this basis is allocated against unrealised capital reserve The SORP recommends that such a write-off should be allocated against revenue The Directors believe this treatment is not appropriate for a high yielding investment trust which frequently buys and sells debt securities and believe any premium or discount paid for such an investment is a capital item

Traded option contracts are restricted to writing out-of-the-money options with a view to generating income Premiums received on traded option contracts are recognised as income evenly over the period from the date they are written to the date when they expire or are exercised or assigned Gains and losses on the underlying shares acquired or disposed of as a result of options exercised are included in the capital account Unexpired traded option contracts at the year end are accounted for at their fair value

Interest from deposits is dealt with on an effective interest basis

Underwriting commission is recognised when the underwriting services are provided and is taken to revenue unless any shares underwritten are required to be taken up, in which case the proportionate commission received is deducted from the cost of the investment

(e) Expenses

All expenses are accounted for on accruals basis In respect of the analysis between revenue and capital items presented within the income statement, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the Investments held can be demonstrated Accordingly the investment management fee and finance costs of borrowings are charged 50% to capital and 50% to revenue, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company

(f) Short-Term Borrowings

Short-term borrowings which comprise interest bearing bank loans and overdrafts are initially recognised at cost being the fair value of the consideration received, net of any issue expenses The finance costs, being the difference between the net proceeds of borrowings and the total amount of payments that require to be made in respect of those borrowings accrue evenly over the life of the borrowings and are allocated between capital and revenue

(g) Index-Linked Debenture Stocks

The Index-Linked adjustments to the redemption value of the Index-Linked Debenture stocks and the interest payable on the Debentures are aggregated The total is then charged 50% to capital and 50% to revenue The amortisation of discounts and expenses of issue are charged wholly to share premium

This allocation between capital and revenue reflects the expected long-term split of returns as mentioned in note (e)

(h) Taxation

The tax payable is based on the taxable profit for the year Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group has no liability for current tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

(i) Foreign currency

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the balance sheet date Foreign exchange gains or losses on investments are recognised in capital through fair value movement Any other gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or the revenue account as appropriate

Notes to the Financial Statements

(continued)

2 INCOME

		2007 £000		2006 £000
Income from listed investments				
Dividend income		6,962		6,260
Interest income from investments		115		123
		7,077		6,383
Other unlisted dividend income		–		22
		7,077		6,405
Other income from investment activity				
Deposit interest		16		15
Traded option premiums		715		1,138
Sales of investments in dealing subsidiary	151		1,188	
Cost of sales in dealing subsidiary	(116)		(974)	
Increase/(Decrease) in fair value of investments	215		(41)	
		250		173
Other Income		4		10
		985		1,336
		8,062		7,741
Total income comprises				
Dividends and interest from investments		7,077		6,405
Deposit interest		16		15
Other income from investment activity		969		1,321
TOTAL INCOME		8,062		7,741

UK dividend income includes special dividends totalling of £285,000 (2006 – £77,000). All dividend income was received from UK companies. The amount of £96,000 (2006 £102,000) included in the capital column of Investment Income represents the write off of the premium or discount on acquisition of debt securities referred to in note 1(d).

Included in Dividend income is distributions received from the Mackintosh High Income OEIC (the "OEIC"). Shires Income plc held over 50% of the units in issue of the OEIC from 4 April 2006 to 28 March 2007 and during this period became entitled to £267,000 of income from the OEIC.

Notes to the Financial Statements

(continued)

3 MANAGEMENT AND SECRETARIAL FEE

Glasgow acts as investment managers and secretaries to the Company under a contract terminable by one years notice on either side The fee payable 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 proportionate reductions to reflect the Company's investments in Glasgow Shires Smaller Companies plc and the Mackintosh High Income OEIC which are managed by *Glasgow*

The Company has a substantial minority interest in GIM Holdings Limited, *Glasgow's* holding company (see note 11)

The fee for the year ended 31 March 2007 was £536,000 (2006 – £492,000) inclusive of VAT The fee is in respect of investment management and is allocated 50% to capital and 50% to revenue The Company also pays an annual marketing and secretarial fee of £47 000 (including VAT) This fee is wholly allocated to revenue

4 MANAGEMENT AND ADMINISTRATIVE EXPENSES

	2007			2006		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Directors' remuneration – fees as directors	64	–	64	66	–	66
Investment management fee	268	268	536	246	246	492
Marketing & Secretarial fee	47	–	47	47	–	47
Fees payable to auditors and associates						
– For the audit of Company's annual accounts	18	–	18	19	–	19
– Other services pursuant to legislation	–	–	–	8	–	8
– Tax services	9	–	9	6	–	6
Other management expenses	202	–	202	263	–	263
	608	268	876	655	246	901

5 DIRECTORS' REMUNERATION

The Company had no employees during the year (2006 – Nil) No pension contributions were paid for Directors (2006 – £Nil)

Details of Directors' remuneration are shown on page 25

6 FINANCE COSTS OF BORROWINGS

	2007			2006		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Bank loans and overdrafts repayable within five years	332	332	664	268	268	536
5% Index-Linked Debenture Stock 2008/2010	1 135	1,135	2,270	1 026	1,026	2,052
Amortisation of Issue expenses on Debenture Stock	–	51	51	–	51	51
	1,467	1 518	2 985	1,294	1,345	2 639

7 TAXATION

At 31 March 2007 the Company had surplus management expenses and loan relationship debits with a tax value of £6,391 000 (2006 – £5,511 000) in respect of which a deferred tax asset has not been recognised This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses

The following table is a reconciliation of current taxation to the charges/credits which would arise if all ordinary activities were taxed at the standard UK corporation tax rate of 30% (2006 – 30%)

Notes to the Financial Statements
(continued)

7 TAXATION (continued)

	2007 Revenue £000	2007 Capital £000	2007 Total £000	2006 Revenue £000	2006 Capital £000	2006 Total £000
Profit before Tax	5,987	1 961	7,948	5 792	16,446	22 238
Taxation of Return on Ordinary Activities at the standard rate of corporation tax	1,796	588	2,384	1 737	4,934	6,671
Effects of						
Non-taxable dividend income	(2,087)	–	(2 087)	(1,905)	–	(1,905)
Non-taxable write off of debt security premium/discount	–	29	29	–	30	30
Current year losses not utilised	291	534	825	168	462	630
Non-taxable realisation (gains)	–	(1 151)	(1,151)	–	(5 426)	(5,426)
Total tax for the year	–	–	–	–	–	–

8 REVENUE AFTER TAXATION FOR THE FINANCIAL YEAR

The profit attributable to equity holders of the Company for the financial year includes £7,692 000 (2006 – £22 013 000) which has been dealt with in the Company's financial statements

9 DIVIDENDS

	2007 £000	2006 £000
Amounts recognised as distributions to equity holders in the period		
Third interim dividend for the year ended 31 March 2006 of 4 4p (2005 4 4p) per share	1,306	1,306
Final dividend for the year ended 31 March 2006 of 6 05p (2005 6 05p) per share	1,795	1,795
First two interim dividends for the year ended 31 March 2007 totalling 8 8p (2006 8 8p) per share	2,612	2,612
	5 713	5,713
3 5 % Cumulative preference shares	2	2

The third interim dividend of 4 4p for the year to 31 March 2007 paid on 30 April 2007 and the proposed final dividend for the year to 31 March 2007 payable on 31 July 2007 have not been included as liabilities in these financial statements

We also set out below the total ordinary dividend payable in respect of the financial year, which is the basis on which the requirements of Section 842 Income and Corporation Taxes Act 1988 are considered

	2007 £000	2006 £000
Three interim dividends for the year ended 31 March 2007 totalling 13 2p (2006 13 2p) per share	3,918	3,918
Final proposed dividend for the year ended 31 March 2007 of 6 05p (2006 6 05p) per share	1 795	1,795
	5 713	5,713

Notes to the Financial Statements

(continued)

10 RETURN AND NET ASSET VALUE PER ORDINARY SHARE

	2007	2006
Revenue return	£5,987,000	£5,792 000
Capital return	£1 961 000	£16,395,000
Weighted average number of ordinary shares	29,689 122	29 676 982

Net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £99 770,000 (2006 – £97,474 000) and on 29 697 580 (2006 – 29,676 982) ordinary shares in issue at 31 March 2007

11. NON CURRENT ASSETS – Securities at fair value

	Group and Company	
	2007 £000	2006 £000
Listed on recognised stock exchanges		
In the United Kingdom	133,828	127 642
Overseas	281	212
Hedge instruments	–	362
	134,109	128 216
Unlisted	4,463	3 498
	138,572	131 714

	Group					
	2007			2006		
	Listed invest-ments £000	Unlisted invest-ments £000	Total £000	Listed invest-ments £000	Unlisted invest-ments £000	Total £000
Cost at 31 March 2006	106,070	1 516	107 586	101,449	1 516	102 965
Unrealised appreciation at 31 March 2006	22 146	1,982	24 128	10 823	1,697	12 520
Valuation at 31 March 2006	128 216	3,498	131,714	112 272	3,213	115,485
Purchases	55 474	–	55,474	58 355	–	58,355
Sales – proceeds	(52,229)	–	(52,229)	(60 125)	–	(60 125)
– net gains on sales	5,061	–	5 061	6,493	–	6 493
Amortised cost adjustment to debt securities						
– Charged to capital	(96)	–	(96)	(102)	–	(102)
Movement in fair value	(2,317)	965	(1 352)	11,323	285	11 608
Valuation at 31 March 2007	134,109	4 463	138,572	128,216	3,498	131 714
Cost at 31 March 2007	114,280	1,516	115 796	106 070	1,516	107 586
Unrealised appreciation at 31 March 2007	19 829	2,947	22 776	22 146	1 982	24,128
Valuation at 31 March 2007	134 109	4,463	138,572	128 216	3 498	131,714

Notes to the Financial Statements

(continued)

11 NON CURRENT ASSETS – Securities at fair value (continued)

	Company					
	2007			2006		
	Listed investments £000	Unlisted investments £000	Total £000	Listed investments £000	Unlisted investments £000	Total £000
Cost at 31 March 2006	106,335	1,131	107,466	101 714	1,131	102,845
Unrealised appreciation at 31 March 2006	21 881	2 367	24,248	10,559	2,082	12,641
Valuation at 31 March 2006	128 216	3,498	131,714	112,273	3 213	115,486
Purchases	55,474	–	55,474	58,355	–	58,355
Sales – proceeds	(52,229)	–	(52 229)	(60 125)	–	(60,125)
– net gains on sales	5,061	–	5,061	6 493	–	6,493
Amortised cost adjustment to debt securities						
– Charged to capital	(96)	–	(96)	(102)	–	(102)
Movement in fair value	(2 317)	965	(1,352)	11 322	285	11,607
Valuation at 31 March 2007	134 109	4,463	138,572	128 216	3,498	131,714
Cost at 31 March 2007	114 545	1 131	115,676	106,335	1 131	107,466
Unrealised appreciation at 31 March 2007	19,564	3,332	22 896	21,881	2,367	24,248
Valuation at 31 March 2007	134,109	4 463	138,572	128,216	3,498	131 714

	Group and Company	
	2007 £000	2006 £000
Net realised gains on sales of investments	5 736	7,884
Movement in fair value of investments	(1 132)	11,686
Call options exercised	(675)	(1 391)
Put options assigned	(220)	(79)
Movement in unrealised depreciation of traded options	134	(12)
	3 843	18,088

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 £715,000 (2006 – £1,138 000) 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(e) and has been charged to the unrealised capital reserve

The total transaction costs on the purchases and sales of investments in the year was £524 000 (2006 – £322,000)

Notes to the Financial Statements

(continued)

11 NON CURRENT ASSETS – Securities at fair value (continued)

At 31 March 2007 the Company held the following investments comprising more than 3% of the class of share capital held

Company	Country of incorporation	Number and class of shares held	Percentage of class held
ATH Resources plc	England	1 250,000 ordinary	3 1%
GIM Holdings Limited	Scotland	42,336 A ordinary	49 9%
Shires Smaller Companies plc	Scotland	4 000 000 ordinary	18 1%
Sierra Monitor Corporation	USA	1 549,134 shares of common stock	14 0%
Submersible Television Surveys Limited	Scotland	186,490 8% cum rd pref	40 8%
MacKintosh High Income OEIC		4,249,011 units	49 5%

Glasgow the Company's Managers and Secretaries, whose business is the management of investments, is a wholly owned subsidiary undertaking of GIM Holdings Limited ("Glasgow Group") This unlisted equity investment, which cost £304,000, was valued at 31 March 2007 at £3 239,000 (2006 – £2 596 000) in accordance with accounting policy note 1(c) The Consolidated pre-tax loss of GIM Holdings Limited was £332,000 for the year to 31 March 2006 (2005 – Profit £184,000) on a turnover of £2,207,000 (2005 – £2,542,000) Net assets of the Glasgow Group at that date were £1,932 000 (2005 – £2,258 000) The earnings per share of Glasgow Group for the year to 31 March 2006 were £(3 91) (2005 – £1 80)

At 31 March 2007 Shires Income plc held 4,249 011 units of the Mackintosh High Income OEIC representing 49 5% of the units in issue The total capital gains on the Mackintosh High Income OEIC during the year were £372,000

12. SUBSIDIARY UNDERTAKINGS

As at 31 March 2007 the Company owned the whole of the issued ordinary share capital of its two subsidiary undertakings, Topshire Limited and Wiston Investment Company Limited both of which are investment dealing companies registered in England Topshire Limited has been dormant since 1989

In the opinion of the Directors, the values of its investments in these subsidiary undertakings are not less than cost

13 CURRENT ASSETS

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Investment sales	874	–	874	–
Accrued income & prepayments	2 038	1 614	2 038	1,614
Due from subsidiary undertakings	–	–	351	62
Investments of dealing subsidiary at fair value	1,047	501	–	–
Other debtors	30	30	30	30
Cash at bank	30	1 212	30	1 212
	4,019	3 357	3,323	2 918
Included above are the following amounts owed by GIM Holdings				
Other debtors	30	30	30	30

Notes to the Financial Statements

(continued)

14 CURRENT LIABILITIES

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Bank loans and overdrafts	14 856	10,315	14 856	10,315
Investment purchases	–	307	–	307
Due to subsidiary undertakings	–	–	10	10
Traded options at fair value	70	–	70	–
Other creditors	386	426	386	426
5% Index-Linked Debenture Stock 2008/2010				
– Due in less than one year	9,153	–	9,153	–
	24,465	11,048	24,475	11,058
Included above are the following amounts owed to *Glasgow*, the Managers and Secretaries				
Other creditors	151	148	151	148

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

15. NON CURRENT LIABILITIES

	Group and Company	
	2007	2006
	£000	£000
5% Index-Linked Debenture Stock 2008/2010		
– Due in 1–2 years	9 153	8,833
– Due in 2-5 years	9,153	17 666
	18,306	26,499

5% Index-Linked Debenture Stock 2008/2010

This Stock is unlisted and is secured by a floating charge over the whole of the assets of the Company and its dealing subsidiary undertakings The total liability of the Index Linked Debenture Stock is £27 459 000 represented by £9,153 000 due in one year which is included in Current Liabilities and £18,306 000 included in Non Current Liabilities

The Directors' opinion of the total fair value of this Stock at 31 March 2007, determined with reference to the current interest profile of similar instruments, was £28 907,000 (2006 – £29,883 000) This value is given for 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

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

The discount on issue is amortised annually to the share premium account over the life of the Stock

Notes to the Financial Statements

(continued)

15 NON CURRENT LIABILITIES (continued)

The amounts outstanding at 31 March 2007 comprise

	Group and Company	
	2007	2006
	£000	£000
Nominal amounts	16 000	16,000
Discounts on issue	(979)	(979)
Amortisation of discounts	881	830
	15,902	15 851
Index-linked adjustments	11,557	10,648
	27 459	26,499
The movements during the year were as follows		
Amounts outstanding at 31 March 2006	26 499	25,716
Amortisation of discounts (note 17)	51	51
Index-linked adjustments	909	732
Amounts outstanding at 31 March 2007	27 459	26,499

16 CALLED UP SHARE CAPITAL

	Authorised			
		2007		2006
	Number	£000	Number	£000
Ordinary shares of 50p each	39,800,000	19,900	39,800,000	19,900
3 5% cumulative preference shares of £1 each	100,000	100	100 000	100
		20 000		20,000

	Allotted called up and fully paid			
		2007		2006
	Number	£000	Number	£000
At 1 April 2006	29,676,982	14 838	29 676,982	14,838
Issued of new ordinary 50p shares	20,598	11	–	–
	29 697,580	14,849	29,676,982	14 838
3 5% cumulative preference shares of £1 each	50 000	50	50 000	50
		14,899		14,888

17. SHARE PREMIUM ACCOUNT

	2007	2006
	£000	£000
At 31 March 2006	18,936	18 987
Issue of new ordinary shares	52	-
Amortisation of expenses and discounts on issue of Debenture Stocks (note 15)	(51)	(51)
At 31 March 2007	18 937	18,936

Notes to the Financial Statements

(continued)

18 RETAINED EARNINGS

Realised capital reserve

	2007		2006	
	Group £000	Company £000	Group £000	Company £000
At 31 March 2006	32 667	32,539	27,714	27 586
Net gains on sales of investments during year	7,033	7,033	9 286	9 286
Net (losses) on hedge positions closed in year	(1 972)	(1,972)	(2 793)	(2,793)
Management fee	(268)	(268)	(246)	(246)
Bank loans and overdrafts repayable within five years	(332)	(332)	(268)	(268)
Index-Linked Debenture costs	(1,135)	(1,135)	(1 026)	(1,026)
Transfer of loss from unrealised capital reserve on disposal of amortised cost asset	(542)	(542)	–	–
At 31 March 2007	35,451	35,323	32,667	32,539

Unrealised capital reserve

	2007		2006	
	Group £000	Company £000	Group £000	Company £000
At 31 March 2006	23 615	23 734	12,122	12,241
Movements during the year				
Fixed asset investments	(3 046)	(3,046)	11,264	11 264
Hedge instruments	1,694	1 694	343	343
Traded options	134	134	(12)	(12)
Amortised cost adjustment charged to capital	(96)	(96)	(102)	(102)
Transfer of loss on disposal of amortised cost asset to realised capital reserve	542	542	–	–
At 31 March 2007	22,843	22,962	23 615	23,734

The capital reserves are not distributable

Revenue reserve

		2007	
	Group Realised £000	Group Unrealised £000	Company Realised £000
At 31 March 2006	7,142	276	6 978
Revenue	5,987	–	5,730
Dividends paid	(5,715)	–	(5,715)
At 31 March 2007	7 414	276	6,993

		2006	
	Group Realised £000	Group Unrealised £000	Company Realised £000
At 31 March 2005	7,065	276	7,075
Revenue	5 792	–	5,618
Dividends paid	(5 715)	–	(5,715)
At 31 March 2006	7,142	276	6,978

Notes to the Financial Statements

(continued)

19 RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES

Risk 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 in issue an Index-Linked Debenture on which the interest payable and the capital sums to be repaid on maturity are linked to the Retail Prices 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 note 15 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 convertibles, 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

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 index-linked debenture stock preference shares and other short-term creditors

The book value of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity Investments held as dealing investments are valued at the lower of cost and market value The carrying values of fixed asset investments are stated at their fair values which have been determined in accordance with accounting policy note 1(c) The estimated total fair value of the Index-Linked Debenture Stock has been determined with reference to the current interest profile of similar instruments (see note 15) For all other short-term debtors and creditors their book values approximate to fair value because of their short-term maturity

Gearing

The Group's gearing comprises both long and short-term borrowings It has in issue an Index-Linked Debenture on which the interest payable and the capital sum to be repaid on maturity are linked to the Retail Prices Index Short-term borrowing from banking institutions is also used and bears interest at floating rates The profile of financing costs is managed as part of overall investment strategy The employment of gearing magnifies the impact on net assets of both positive and negative changes in the value of the Group's portfolio of investments

Gearing is however, restricted by the various covenants applicable to different borrowings The Index-Linked Debenture Stock contains a clause which stipulates that borrowings must not exceed shareholders' funds As at 31 March 2007 total borrowings comprising the Index-Linked Debenture Stock and bank loans and overdrafts, amounted to £42 3 million, significantly below shareholders' funds of £99 8 million A second clause stipulates that the market value of total assets must be at least three times greater than Group secured indebtedness The only secured debt within the Group is the Index-Linked Debenture Stock and therefore three times the value of this stock is £82 4 million, significantly below the market value of total assets of £142 6 million

Borrowings are augmented by short term bank facilities, provided by two major banks In respect of one lender, the Company's net asset value must not fall below £50 million As at 31 March 2007, the net asset value stood at £99 8 million, considerably in excess of this covenant The other short term facility provides for quarterly covenant reporting based upon gross borrowings as a proportion of adjusted gross assets This ratio should not exceed 50% As at 31 March 2007, the reported ratio was 31%

Notes to the Financial Statements

(continued)

19 RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES (continued)

Portfolio Hedging Instruments

During the year, the Company maintained partial hedging of the ordinary share portfolio to limit any possible major erosion of asset value and attendant rise in gearing which could result from significant weakness of ordinary share prices on the UK stockmarket Given the continued strength of the equity market and the proximity of the hedge position to its maturity date the position was closed out on 28 March 2007

20 COMMITMENTS AND CONTINGENCIES

At 31 March 2007 there were no contingent liabilities in respect of outstanding underwriting commitments or uncalled capital (2006 – £Nil)

Glasgow Investment Managers Limited
(Authorised and regulated by the Financial Services Authority)

Glasgow, the company which manages Shires Income plc, is principally owned by its retired founder and current and former staff with Shires Income plc holding the remaining interest

Glasgow also manages two other investment trust companies

- **Shires Smaller Companies plc**
- **Glasgow Income Trust plc**

Shares in Shires Income plc Shires Smaller Companies plc and Glasgow Income Trust plc are also available within the Glasgow Investment Collection as detailed on page 16

This page and page 16 are issued and approved by *Glasgow* authorised and regulated by the Financial Services Authority Past performance is not indicative of future performance The price of shares and the income from them may go down as well as up and it is possible that investors may not get back the full amount invested on disposal of the shares Changes in the rates of exchange may cause the value of overseas investments to go down or up High income investments in order to meet their income objectives may charge expenses to capital which in turn may erode the capital value of the investment to less than the amount invested Funds that invest in the securities of smaller companies are likely to carry a higher degree of risk than most funds In certain circumstances, the Managers may enter into derivatives transactions in order to manage risk in the portfolio and generate income The market in these instruments can be highly volatile and there is a high risk of loss Derivatives may only be used subject to the restrictions set out for the Company

Shires Income plc invests a significant proportion of its portfolio in another highly geared Investment Trust Shires Smaller Companies plc Due to the level of this holding, changes in the value of this investment may give rise to significant fluctuations in the value of Shires Income plc

Gearing

Investment Trusts have the facility to borrow, which is known as "gearing" Shires Income plc uses gearing Normally gearing is measured as a percentage A gearing percentage of 10% means that an Investment Trust with net assets of £100 million, has £10 million of borrowing(s) The level of gearing can change quite significantly depending on fluctuations in market levels When there is a change in value of the Investment Trust's underlying portfolio the use of gearing may result in exaggerated movements in the Trust's net asset value Gearing may also result in Investment Trust price movements being more volatile than the price movements in the Trust's underlying investment portfolio

The favourable tax treatment of PEPs and ISAs is subject to government legislation and, as such may be changed The value of tax relief will depend upon your individual circumstances

Glossary of Technical Termsi

Benchmark
A market index which averages the performance of the share prices of companies in any given sector thus providing an indication of movements in the stockmarket The benchmark used in this Annual Report is the FTSE All-Share Index, a recognised and respected index, which measures the performance of the largest 750 quoted UK companies

Convertibles
Fixed interest securities, which can be converted into equity shares at a future date

Discount
The amount by which the market price per ordinary share of an investment trust is lower than the net asset value per ordinary share The discount is normally expressed as a percentage of the net asset value per ordinary share

Gearing
Total gearing is the proportion of the Group's net assets financed by borrowings It is used to increase exposure to securities, with the aim of magnifying the impact on net assets of rises in the value of the portfolio, and to augment the investment base from which income is received The employment of gearing magnifies the impact on net assets of both positive and negative changes in the value of the portfolio of investments A level expressed either as 100 or 0% indicates there is no gearing

Equity gearing is the sum of the investments in ordinary shares both listed and unlisted, convertibles and hedge instruments expressed as a proportion of the Group's net assets

Net Asset Value
Also described as ordinary shareholders' funds, Net Asset Value per ordinary share is the value of total assets less liabilities Liabilities for this purpose include borrowings and preference share capital as well as current liabilities The Net Asset Value per ordinary share is calculated by dividing this amount by the number of ordinary shares in issue

Preference Shares
These entitle the holder to a fixed rate of dividend out of the profits of the Company, to be paid in priority to other classes of shareholder

Premium
The amount by which the market price per ordinary share of an investment trust is higher than the net asset value per ordinary share The premium is normally expressed as a percentage of the net asset value per ordinary share

Total Assets
Total assets less current liabilities

Total Expense Ratio
Total annual operating costs excluding interest costs, divided by average shareholders' funds (calculated according to AIC guidelines)

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the seventy-ninth Annual General Meeting of the Members of the Company will be held at Trinity House Tower Hill London EC3N 4DH on 6 July 2007 at 12 noon to transact the following business

Ordinary Business

1. To receive and adopt the Directors' Report and audited financial statements for the year ended 31 March 2007
2. To receive and adopt the Directors Remuneration Report for the year ended 31 March 2007
3. To declare a final dividend
4. To re-elect J M Haldane as a Director
5. To re-elect J R Davidson as a Director
6. To re-elect M D Couve as a Director
7. To re-elect D P Kidd as a Director
8. To elect A B Davidson as a Director
9. 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

10 That with effect from the time of the passing of this resolution the Directors be and are hereby generally and unconditionally authorised, pursuant to section 80 of the Companies Act 1985 as amended ("the Act"), to exercise all the powers of the Company to allot relevant securities (as defined in said section 80 of the Act) up to a maximum nominal amount of £4,946 596 being equal to approximately one third of the ordinary shares in issue 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 each of which will be proposed as special resolutions

11. That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 as amended ("the Act") to exercise all powers of the Company to allot equity securities for cash, pursuant to the authority conferred by Resolution 10 considered at this Meeting and/or in respect of an allotment of equity securities by virtue of Section 94(3A) of the Act as if Subsection 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to

    (i) the allotment of equity securities in connection with a rights issue or open offer or otherwise where such securities have been offered to the holders of the ordinary shares of 50p each in the capital of the Company in proportion (as nearly as may be) to their respective holdings of ordinary shares on a record date fixed by the Directors where it is, in the opinion of the Directors necessary or expedient to deal with problems under the laws of any overseas territory or the requirements of any regulatory body or any Stock Exchange in any overseas territory or in connection with fractional entitlements, and

    (ii) to the allotment (otherwise than pursuant to (i) above) of ordinary shares up to an aggregate nominal amount of £742,439 being equal to approximately 5% of the ordinary shares in issue, at a price per share not less than the fully diluted net asset value of an ordinary share in the Company calculated as at the close of business on the immediately preceding business day

    and shall expire at the conclusion of the Annual General Meeting of the Company in 2008 but so that this power shall enable the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired and for this purpose words and expressions defined in or for the purpose of Part IV of the Act shall bear the same meanings in this resolution

12 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 £2,225,833

(ii) the maximum price which may be paid for any ordinary shares shall not exceed an amount equal to 105% of the average of the market values of such ordinary shares for the five business days before the purchase is made and the minimum price shall be 50p per ordinary shares (in each case exclusive of expenses) and

(iii) the authority hereby conferred shall expire (unless previously revoked or renewed) at the close of business on 6 July 2008 or at the conclusion of the next Annual General Meeting of the Company held after passing of this resolution, whichever is the later, provided that the Company may before such expiry make any contract of purchase for ordinary shares which would or might be executed wholly 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

By Order of the Board

Glasgow Investment Managers Limited
Secretaries

24 May 2007

Notes:

1 A member of the Company entitled to attend and vote at the Meeting 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

2 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

3 The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members of the Company entered on the register of members of the Company as at 12 noon on 4 July 2007 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that date Changes to entries in the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the Meeting

INVESTMENT MANAGERS

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