

Shires Income PLC
Annual Report and Accounts
31 March 2012

Co No 00386561



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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Ordinary shares in Shires Income PLC please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

About Your Company

Company 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 £71.0 million as at 31 March 2012. These investments were invested by the Manager, Aberdeen Asset Managers Limited ("Aberdeen"), in what it believes is the appropriate way of achieving the Company's objectives. Of the total investments, £50.1 million was invested in ordinary shares, £1.3 million in convertible securities and £9.6 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.

Aberdeen Smaller Companies High Income Trust 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 Aberdeen Smaller Companies High Income Trust which is also managed by Aberdeen. It has an attractive dividend yield.

Earnings and Dividends

The Company aims to provide a high level of income together with growth of both income and capital.

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

The Directors and Manager put a great deal of emphasis on being able to provide shareholders with a high level of dividend. This is, however, put at risk if the dividends paid by UK companies are in general decline. There is a sizeable revenue reserve, equivalent to 13.7p per share (after providing for the dividends relating to the current year), 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 the assets will produce a greater total return than the cost of the borrowing over time. However, if asset values decline, that decline is exacerbated by gearing. During the year under review, the Company's borrowing was exclusively bank borrowing.

Financial Highlights

	2012	2011
Net asset value total return	+4.2%	+12.7%
Share price total return	+9.3%	+10.1%
Benchmark total return	+1.4%	+8.7%
Dividend per share	12.0p	12.0p
Dividend yield	+6.2%	+6.3%

Total return assumes the re-investment of net dividends paid during the year

Net asset value per Ordinary share*

At 31 March – pence

Share price per Ordinary share

At 31 March - pence

Dividends per Ordinary share

Year ending 31 March – pence

*Both current and prior year figures are for the Company only following the dissolution of the subsidiaries in May 2011

Financial Calendar

19 July 2012	Annual General Meeting in London (12 noon)
31 July 2012	Ordinary shares final dividend 2011/2012 payable
28 September 2012	3 5% Preference shares half year dividend payable
31 October 2012	Ordinary shares first interim dividend 2012/2013 payable
November 2012	Half Yearly Financial Report announced and Half Yearly Report published
31 January 2013	Ordinary shares second interim dividend 2012/2013 payable
30 April 2013	Ordinary shares third interim dividend 2012/2013 payable

Corporate Summary

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 ordinary shares of UK quoted companies, and in convertible and preference shares with above average yields. The Manager selects stocks via a bottom-up investment process based on a disciplined evaluation of companies through direct visits by the Manager.

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

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

Aberdeen Asset Managers Limited ("Aberdeen") acts as Manager to the Company under a management contract which is terminable by six months' notice on either side. The fee is 0.45% for funds up to £100 million and 0.40% for funds over £100 million.

SIPPs and ISAs

The Company's Ordinary shares are available for investment in SIPPs and ISAs.

AIC

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

Share Price and Net Asset Value Information

The share price of the Ordinary shares, which are listed on the main market of the London Stock Exchange, is quoted in the Financial Times, The Daily Telegraph and The Herald. The Company's Net Asset Value is calculated daily and announced to the London Stock Exchange.

Share Register Enquiries

The Company's Registrars, Equiniti Limited, maintains the share register. In the event of queries regarding your shares, please contact the Registrars on 0871 384 2508. Changes of name or address must be notified in writing to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZR.

Shareview Website

The Registrars provide an on-line service that enables shareholders to access details of their shareholdings. A shareholder wishing to view the 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 who hold their shares in nominee names may, if appointed as a proxy by the nominee company, attend and speak at general meetings.

Company Secretary

Aberdeen Asset Management PLC, 40 Princes Street, Edinburgh, EH2 2BY.

Websites

www.shiresincome.co.uk
www.aberdeen-asset.com

Chairman's Statement

Anthony B Davidson
Chairman

Results Review

After enjoying two positive years of market gains, it is perhaps not surprising that we saw a small decline in the UK equity market in the period under review, although if one takes account of dividends that have been received total returns have been positive. Companies have in general performed quite satisfactorily due in part to the tough actions that many management teams have taken in preceding years and also as a result of a modest improvement in the business environment.

However, while corporate performance has been broadly robust, the movements in share prices over the course of the year at the individual company level have often been rather dramatic. Political and macroeconomic concerns particularly in Europe have been the key factors behind the instability at the index level. This has resulted in traders switching back and forth from seeking additional risk to becoming very cautious and returning once again to lower risk assets.

The outcome for the year to the end of March 2012 was an increase in the Company's net asset value per share of 4.2% on a total return basis. This compares to a rise in the FTSE All-Share Index, our benchmark, of 1.4% on a total return basis. The total return from the share price was 9.3%.

The decline in the Company's net assets does not reflect the robust performance of many of the companies within the portfolio which broadly continue to prosper. Business leaders are beginning to indicate increased confidence in the future if dividend increases and capital investment programs are any guide.

In line with the Board's guidance given last year, your Company is proposing a full year dividend of 12.0p per share. This is 100% covered by the revenue generated by the portfolio. If approved at the AGM, a final dividend of 3.0p per share will be paid on 31 July 2012 to shareholders on the register on 6 July 2012.

Performance

There have been a number of areas that have driven this year's outperformance. Our underweight position in the Banking sector was important to last year's performance and

this has again been the case. The Company has no equity exposure to UK or European orientated banks. Additionally, the Aerospace and Defence sectors and the Food Producers have aided performance. Other areas deserving of comment have been the Oil and Gas Producers and the continuing overweight to Tobacco which has been a substantial benefit.

During the year, the Company's shares have traded at a tight discount or a small premium to their net asset value. This reflects the on-going performance and recognition of the attraction of the Company's yield.

Earnings and Dividends

From an earnings perspective, this year there was nothing as significant at the portfolio level as when the BP dividend was cut to zero following the Macondo oil spill in the Gulf of Mexico. In fact BP has now resumed payments, although at a reduced level, and is gradually settling its outstanding legal issues although final settlement may take years. However, as discussed above, many of the companies within the portfolio have reported another good year of earnings progression and this has resulted in some reasonable growth in equity dividends.

The scale of the austerity and debt problems in the mature economies means the economic environment is likely to remain challenging for some time to come. Deleveraging by governments and consumers in economies which are growing very slowly will take some considerable period of time.

Helpfully, the Company benefits from a respectable dividend reserve which was utilised last year in order to maintain a slightly uncovered dividend. However, following the progress the Company's investments have made over the last year with several companies reporting more than 10% dividend growth we are pleased to report that this year's payment is fully covered by earnings.

Portfolio Profile and Gearing

The Company's gearing decreased slightly during the year from 26.5% to 23.9%. The Board continually monitors the level of gearing in the Company. Although the absolute level of gearing looks high, we remind shareholders that it is deployed notionally in fixed interest securities which bring an element of diversification to the Company's total revenue stream. The Board and the Manager regularly review the opportunities available to protect an element of the portfolio in the event of a precipitous fall in markets. However, given the cost of such insurance we have not regarded this as a cost effective proposition this year.

Outlook

In my outlook statement last year I mentioned the dangers of rising US government debt levels. Sadly the authorities have decided again to defer taking the necessary decisions with regards to spending and taxation to correct this dangerous situation and are instead focused on the elections later this year. Fortunately for whoever wins, it appears that the US is experiencing a steady if slow recovery and many developing markets continue to grow robustly. Eventually though the issue of US indebtedness will have to be addressed and the American public will have to recognise that they too will need to endure some form of austerity.

Another potential threat to the recovery in real incomes remains a sharp increase in oil prices, and therefore tensions in the Middle East are a risk to the general global recovery. However, we are still some way below the \$150 price which many commentators believe must be sustained before any major impact is felt on economic growth. Meanwhile, the rejuvenation of American oil production through increasing shale oil and gas production may well over time alter global energy markets, lessen US imports of oil and significantly improve the balance of payments.

While the potential for sovereign defaults remains within the Eurozone, the actions of the European Central Bank, particularly in the area of banking liquidity, and the Long Term Refinancing Operation, have been extremely robust. Nonetheless, politicians within the European Union will need to maintain strict austerity measures despite rising political resistance if they are to avoid the debt markets taking fright and making funding extremely expensive.

It remains to be seen what impact the recent changes in political leadership in France, Spain, Italy and Greece have directly on European economic and monetary policy and indirectly on the UK. I suspect the UK government may need to adopt a slightly more flexible economic stance in the wake of the threat of increasing unemployment and apparent loss of public support for austerity measures on their own without an agenda for growth.

More encouragingly, at the corporate level, balance sheets which were already in good shape continue to strengthen. This is important as it helps secure dividend pay-outs and provides management with the ability to carry out mergers and acquisitions at a time when company valuations are attractive both on a relative and absolute basis. Additionally, rather than growing through acquisitions they can choose to invest organically.

Given the macroeconomic uncertainties discussed above the immediate outlook for equities is uncertain. However, the portfolio's investments are positioned to give exposure to some reasonable growth opportunities available in both

developed and emerging markets across a broad array of attractive industries. A high level of income, together with the potential of both income and capital growth remain the core to the management philosophy for the Company's portfolio. The investment strategy will continue to focus on holding high quality, UK listed companies that offer solid growth prospects over the medium term.

Anthony B Davidson

Chairman

6 June 2012

Manager's Review

Portfolio Strategy

Markets have declined over the year, although if one takes account of the dividends that have been received returns have been positive. There has been no material change to our strategy regarding the construction of the portfolio. We have continued to invest in companies that we believe have sound business models and appropriate financial structures. Our thesis is that over the medium term these companies will deliver an attractive mix of income and capital growth. Gearing has declined slightly to 23.9%. This does not reflect a tactical decision to decrease our exposure to the markets. Rather, it has been a function of the movements in the asset base. The gearing remains invested notionally in a selection of UK preference shares which provide a core level of high income.

The Company's assets are invested in equities, preference shares and convertible shares. At the year end, 67% of the assets were invested in equities, 26% in preference shares and the remainder in convertible shares and cash.

Revenue Account

The following table details the main sources of the Company's income over the last five years.

	2012	2011	2010	2009	2008
	%	%	%	%	%
Ordinary dividends	48.5	44.1	41.6	41.5	47.5
Preference dividends	39.6	44.4	44.7	28.1	29.0
Aberdeen Smaller Companies	5.5	6.9	7.4	8.7	7.4
Fixed interest and bank interest	0.3	0.6	1.3	2.9	1.1
Dealing subsidiary	0.0	0.0	0.0	(0.5)	(7.0)
Traded option premiums	6.1	4.0	5.0	19.3	22.0
	100.0	100.0	100.0	100.0	100.0
Total income (£'000s)	4,352	4,153	4,201	6,929	8,117

In the year ended 31 March 2012 there was a further improvement in the revenue generated by the equity portfolio. Consequently, equities accounted for 54% of the total. Preference shares remain an important contributor and this year they delivered just less than 40% of the Company's income. The contribution from traded options was greater than in 2011. This was a result of the higher than normal levels of volatility which typically allowed us to generate a

slightly higher level of revenue from the options that we sold. The dealing subsidiaries were formally dissolved in May 2011. Consequently, there will be no further activity from this part of the Company.

Equities

This has been a rather unusual year for equities. Movements in share prices have often been dramatic. But rather than being driven by the fundamental performance of the companies themselves they have often been influenced by political and macroeconomic concerns. At times it has felt as though investors were behaving in an almost schizophrenic manner as they flipped between seeking risk and then being highly averse to it.

Looking at the small moves in the indices over the course of the year it would be easy to conclude that not much had happened. However, this conceals some periods of dramatic volatility. The FTSE 100 peaked during April, reaching a level of 6082. With the exception of February 2011 the market had not reached that level since the first half of 2008. July witnessed the start of a precipitous decline that saw the index breach the 5000 level, falling to 4944, a decline of more than 18%. During the late summer and autumn there were frequent moves of more than 1% in a day. October was a quite remarkable period. Equities delivered an 8% return but they started the month in decline. Therefore, over the course of the month there was a 15% swing between the peak and the trough. Such a move was repeated between early November and December when the FTSE 100 fell from 5567 to 5127 before recovering all its losses. In such an environment good quality companies were regularly impacted every bit as much as lower quality ones. We were able to take advantage of these conditions to continue to improve the quality of the portfolio and to introduce new companies when the opportunity arose. Clearly, these were not normal market conditions and there were two aspects of a normal market that were noticeable by their absence. IPO and merger and acquisition activity were almost non-existent over the year.

As we entered the Company's financial year investors continued to focus on the European Sovereign debt crisis and the anaemic recovery affecting much of the developed world. We started with some brighter news as the UK economy grew by more than expected in the first quarter, although it needed to be recognised that it had not actually grown at all over a six month period. In the European Union the Central Bank raised interest rates by 0.25% to 1.25%. This was surprising given the pressure that it put on already struggling peripheral nations. Volatility was not confined to equity markets. By May there were signs of slowing Chinese demand. This resulted in significant declines in commodity prices, best exemplified by the 7% fall in the oil price. In the UK inflation remained stubbornly high at 4.5%. The Governor

of the Bank of England was maintaining his hypothesis that this would be transient. Other members of the Monetary Policy Committee were demonstrating just how concerned they were about the weakness of the recovery in the UK with their suggestion that there may need to be further economic stimulus. July witnessed a pronounced change in sentiment. Investors had two primary concerns. There was a rising danger that Greece would default and across the region yields began to rise especially for Spain and Italy. It was all the more remarkable then that the ECB increased interest rates by a further 0.25%. Simultaneously, the US was undergoing its own debt crisis but this was not related to liquidity or solvency per se. Rather, it was the inability of the politicians to reach agreement as to the pathway for future debt reduction. Although agreement was eventually reached, it was insufficient to prevent Standard & Poor's from downgrading the country's credit rating.

At the company level, cost inflation remained the most pressing issue and there was increasing clarity as to which businesses truly possessed pricing power. Many industrial companies, especially those with high levels of overseas earnings, were reporting very solid results often accompanied by record margins. However, they were also beginning to experience slowing sales growth. This slowing was very evident in the US where second quarter GDP was revised down to a disappointing 1% and the Federal Open Market Committee indicated that interest rates would be kept at near zero levels until the middle of 2013.

In Europe the ECB was forced to intervene after the yields on Spanish and Italian debt rose to levels not seen since the establishment of monetary union.

As autumn started the situation was deteriorating on both sides of the Atlantic. The Federal Open Market Committee said that it saw "significant downside risks to the economic outlook" and extended the current stimulus package via *Operation Twist*. In the UK the Monetary Policy Committee suggested that further economic stimulus may be required and in Europe the ECB altered its focus from inflation to the danger that there would be further deterioration in the region's economy.

October brought some good news. First, there were signs that the US was improving, most notably in terms of job creation. In Europe it was announced that there would be a three pronged approach to the debt crisis. There would be a re-capitalisation of the banking system. This was to be accompanied by a significant increase in the firepower of the European Financial Stability Fund ("EFSF"). Of equal importance, private holders of Greek debt would be forced to endure a 50% loss on their investments.

The market welcomed this plan but the rally was short lived as the Greek Prime Minister announced there would be a referendum on the associated additional austerity measures. It also became very clear that there was no appetite from either private or sovereign sources to provide the additional funding required to enlarge the EFSF.

There was some good news though both Greece and Italy changed their Prime Ministers. The world's major central banks took co-ordinated action to ease the dollar funding requirements of European banks. The ECB engaged in a *volte face* and reduced interest rates and the Chinese authorities reduced their reserve ratio for the first time in three years indicating that they recognised the risks to growth that were being faced by their economy.

2011 ended quietly, though the ECB did reduce interest rates by a further 0.25% and more importantly announced the implementation of the Long Term Refinancing Operation. Markets were barely moved.

2012 brought an abrupt change to investor perception and appetite for risk. The problems in Europe remained unresolved but the focus was much more on the positives. Policy makers in the US were now talking about holding interest rates at extremely low levels until 2014. There were signs that the European Central Bank's Long Term Refinancing Operation ("LTRO") was working as desired. €489Bn was deployed and both Spain and Italy were able to issue new bonds. Investors had accepted that Greece would default. Meanwhile the news that Standard & Poor's had downgraded the credit ratings of nine members of the European Union, including France and Austria, was greeted with little more than a collective shrug of the shoulders.

February witnessed two more bouts of economic stimulus. The ECB engaged in the second wave of the LTRO and experienced a take up of €529Bn. Meanwhile in the UK the MPC released a further £50Bn of quantitative easing. It was illustrative of the mood of investors that many had constructed arguments as to why both a large and a small take up in the LTRO would be good for equities. The largest positive though was the on-going recovery in the US where initial jobless claims fell to a four year low and Q4 GDP was revised upwards to a very solid 3%.

As we entered reporting season many companies were producing results that were in line with expectations. The exceptions being those that are exposed to the UK consumer, who were in aggregate having a torrid time. However, management teams were, unsurprisingly, very cautious about the outlook for the remainder of the year. Some, especially those exposed to certain capital goods, semi-conductors and the US natural gas markets cautioned that they were beginning to experience a slowdown.

Manager's Review *continued*

The financial year ended with more of the same. The US continued its recovery, it was confirmed that the EU had contracted over the final quarter of 2011 and that recession now looked more likely than not. The UK budget was something of a non-event for the markets. Perhaps the most concerning data was that although still high in absolute terms, growth in China is moderating. This may be no bad thing, however news that officials had revised their growth target to 7.5%, the first reduction since 2005 was taken negatively by investors. This was evident in the share price reactions of many companies that have significant Chinese exposure and in particular the miners.

Shires Income's portfolio is constructed on a company by company basis rather than by reference to the benchmark. In the UK, however, the index is dominated by a handful of sectors and very large companies. This can have the effect of creating significant divergences between the Company's portfolio and the benchmark.

Many of the themes that we have commented on in previous years have remained features of the portfolio during this financial year. We continue to be underweight in respect of the oil and gas majors. We regard the likes of Shell and BP as attractive investments. However, we believe that a sensibly constructed portfolio will have limited exposure to any given company and therefore we will naturally be underweight the very large positions in the index. Our belief is that the oil service companies have more attractive long term prospects. They bear less geopolitical risk, are able to grow their earnings more rapidly, are not constrained by the constant need to replace their reserves and are less exposed to the vagaries of the oil price. This year we have exited our holding in Rio Tinto and built up our holding in BHP Billiton. We regard BHP Billiton as being the most diversified of the miners with the best quality asset base. Mining companies are difficult to value, a classic case of a low price earnings multiple not necessarily signifying that a company is cheap. A number of companies in the mining sector do not satisfy our quality criteria. This might be due to geopolitical risk, a lack of asset diversification or inadequate corporate governance. Consequently we are less exposed to this sector than the benchmark. Two industries where we are overweight relative to the benchmark are Aerospace and Defence and Food Producers. In the Aerospace and Defence markets we have investments in Rolls Royce and Cobham. Both companies benefit from long product life cycles, sizable aftermarket sales, structural growth and high barriers to entry. Among the Food Producers we hold Unilever and Associated British Foods. These businesses experience defensive demand profiles allied with some pricing power and exposure to emerging market growth opportunities.

At the industry level it appears as though we are heavily skewed towards the financial sector. However, a number of

factors need to be considered. Firstly this is a broad and diverse sector encompassing companies that range from the domestic banks through the insurers to the likes of the Aberdeen Smaller Companies High Income Trust ("Aberdeen Smaller Companies"). We are underweight the domestic banks, as we do not believe that it is possible to appraise their future prospects whilst they remain under effective government ownership. Our banking exposure is primarily via HSBC and Standard Chartered both of which have significant overseas earnings streams. We also own the Santander 10.375% preference share. This was originally issued by Abbey National and forms part of the Santander UK capital structure. In the Life and General Insurance sector our holdings include Prudential and Chesnara. The former delivers substantial Asian exposure and the latter is primarily a closed book of UK business that is being run off with the aim of producing an attractive dividend stream. Lastly many of the preference share holdings are also classified in the financial sector. However, as fixed interest instruments we would expect the preference shares to show a reduced level of correlation with equities during times of market volatility. Therefore we believe that we have broadly diversified exposure to the financial industries.

One of the most pleasing themes of the year has been the growth in dividends. The portfolio has benefited from holding 13 companies who have grown their dividends by more than 10%, three companies who have returned to the dividend paying list and just one that has cut its distribution. Some companies that stand out include Amec who increased their pay-out by 55%, BHP by 20%, Weir and Whitbread by 27% each and Morrison who grew their dividend by 38%, though there was an element of rebalancing in this. One feature that stands out is that many of these companies pay below market yields. This is important because we are sometimes asked why we own businesses that pay low yields. It is often assumed it is because these are the businesses that we expect to deliver the most capital appreciation. This is true in part, but every bit as important is the fact that it will be these companies who ultimately deliver to us the ability to increase the dividend on your shareholding.

We have retained our holding in Aberdeen Smaller Companies. Whilst we are comfortable making direct investments in smaller companies, we believe that Aberdeen Smaller Companies brings the benefits of diversification at an attractive valuation given the discount that it trades on. This is allied with a very attractive yield that is notable in the context of the market in which it operates.

Investment Performance Analysis

In the year to the end of March 2012, the total return on net assets was 4.2% compared to our benchmark, the FTSE All-Share Index, which returned 1.4%. The outperformance versus the benchmark was driven by a number of factors

Our underweight position relative to the domestic banks has again been important. In particular the Company has benefitted from not investing in Lloyds Bank. Aerospace and Defence has been a positive contributor. We are overweight the sector and this has helped but so has our holding in Rolls Royce which has been a very strong performer over the year. We have remained cautious with respect to the valuations of the miners, maintaining an underweight position. This has served us well and performance has been aided by not owning either Anglo American or Xstrata. We continue to regard the defensive nature of Food Producers and Tobacco companies as attractive and this year the holdings in Associated British Foods and British American Tobacco have contributed substantially to the outperformance. It is also worth noting the contribution from Provident Financial. The company's share price has risen strongly over the year as investors have recognised the solidity of the business model combined with a very attractive yield. Of course not every investment has evolved as we originally expected. Mothercare has been a disappointment for us. Although the International division has continued to perform strongly the deterioration in the UK division has been more severe than we forecast and this has been reflected in a poor share price performance. Having re-appraised our view we concluded that it was no longer an appropriate investment for the Company and we have exited the holding.

Prospects

The immediate outlook for equities remains as difficult to determine as it has been since the financial crisis began. Although the near €1 trillion that the European Central Bank has deployed through its LTRO facility has eased funding pressures it has not provided a resolution. The economies of Spain and Italy are vast in comparison to Greece and whilst each country faces different challenges there is still the potential that either country could need a bail out. How this would be funded is far from clear.

Meanwhile there is a rising resistance to austerity measures across the European Union. A recession looks very probable this year and further austerity measures will likely be necessary. But voters are clearly unhappy already, therefore there is a danger that politicians will fail to take the necessary steps. Investors need to be confident that troubled nations will achieve their debt reduction targets if there is to be any prospect of more normal debt markets. The likelihood of recession also illustrates another aspect of the economic conundrum, namely that austerity may prevent countries from growing their way out of their indebtedness.

Even with more serious problems averted, it seems that no-one has yet considered how we will begin to unwind the extraordinary measures that are currently being used to stimulate the global economy.

There are though some brighter prospects. The US is showing signs of ongoing recovery and many developing markets are growing rapidly. At the company level there is also some good news. Many are benefitting from the growth that is occurring outwith the EU. Also, in aggregate, corporate balance sheets are in a good state of repair. This is important for two reasons. First, it gives us some confidence that they will be able to weather the tribulations that will arise as a result of Europe's sovereign debt problems. Secondly, it gives them options. Whilst management teams can be expected to remain cautious they are operating with balance sheets that provide the potential for future dividend growth. They also have the capacity to engage in merger and acquisition activity at a time when many companies are trading at what can be regarded as attractive valuations. Alternatively, they have the scope now to invest in organic growth opportunities. Whilst it may take time for the benefits to flow through, such investment should position them well for the future.

Valuations are attractive relative to both history and other asset classes. Whilst it is unwise to rely on any one single measure, some metrics would seem to be quite stretched in favour of equities. A good example would be the difference between the yield available on equities and that on government bonds. Equities now yield more than gilts. Historically, this has represented a good opportunity for the long term equity investor.

Faced with the above, we expect volatility to remain a feature of equity markets over the coming year. However, we believe that we have an appropriately diversified portfolio that has exposure to some of the growth opportunities presented by the emerging markets. This is allied with sound business models that are coupled to balance sheets that give us comfort in their ability to deliver over the medium term.

Aberdeen Asset Managers Limited

6 June 2012

Results

Financial Summary

	31 March 2012	31 March 2011	% change
Total investments	£70,950,000	£74,317,000	-4.5
Shareholders' funds	£57,285,000	£58,639,000	-2.3
Market capitalisation	£57,762,000	£56,425,000	+2.4
Net asset value per share	192.89p	197.45p	-2.3
Share price (mid market)	194.50p	190.00p	+2.4
Premium/(discount) to adjusted NAV ^a	4.1%	(0.8%)	
Gearing	23.9%	26.5%	
Total expense ratio	1.1%	1.1%	
Dividends and earnings			
Revenue return per share ^b	12.17p	11.09p	+9.8
Dividends per share ^c	12.00p	12.00p	-
Dividend cover	1.01	0.92	
Revenue reserves ^d	£5,850,000	£5,793,000	

Both current and prior year figures are for the Company only following the dissolution of the subsidiaries in May 2011

^a Based on IFRS NAV above reduced by dividend adjustment of 6.0p (2011 – 6.0p)

^b Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income)

^c The figures for dividends per share reflect the years in which they were earned (see note 8 on page 38)

^d The revenue reserve figure does not take account of the third or final interim dividend amounting to £1,781,855 (2011 – £1,781,855)

Performance (total return)

	1 year % return	3 year % return	5 year % return
Net asset value (Company only)	+4.2	+107.8	-13.7
Share price (based on mid price)	+9.3	+129.8	-4.1
FTSE All-Share Index	+1.4	+67.9	+9.5

All figures are for total return and assume re-investment of net dividends excluding transaction costs

Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	3.00p	5 October 2011	7 October 2011	31 October 2011
Second interim dividend	3.00p	4 January 2012	6 January 2012	31 January 2012
Third interim dividend	3.00p	4 April 2012	10 April 2012	30 April 2012
Proposed final dividend	3.00p	4 July 2012	6 July 2012	31 July 2012
2011/12	12.00p			
First interim dividend	3.00p	6 October 2010	8 October 2010	29 October 2010
Second interim dividend	3.00p	5 January 2011	7 January 2011	31 January 2011
Third interim dividend	3.00p	6 April 2011	8 April 2011	28 April 2011
Final dividend	3.00p	6 July 2011	8 July 2011	29 July 2011
2010/11	12.00p			

Performance

Ordinary Share Price Premium/(Discount) to NAV

Five years to 31 March 2012

Total Return of NAV and Ordinary Share Price vs FTSE All-Share Index

Figures are total return and have been rebased to 100 at 31 March 2007

Net Dividend Yield

Five years to 31 March 2012

Performance continued

Ten Year Financial Record

Year to 31 March	2003	2004 ^A	2005	2006	2007	2008	2009	2010	2011	2012
Revenue available for ordinary dividends (£'000)	5,853	5,770	5,770	5,792	5,987	6,026	5,536	3,512	3,292	3,615
Per share (p)										
Net revenue return	19.6	17.6	19.7	18.9	19.3	22.2	18.8	11.8	11.1	12.2
Net dividends paid/proposed	19.25	19.25	19.25	19.25	19.25	19.75	19.75	12.00	12.00	12.00
Total return	(175.1)	74.2	52.8	74.2	25.9	(63.4)	(112.9)	85.3	22.6	7.4
Net asset value	173.6	228.6	272.2	327.1	334.0	251.1	118.5	186.8	197.5	192.9
Shareholders' funds (£m)	51.2	67.8	80.8	97.1	99.1	74.6	35.2	55.5	58.6	57.3

Both current and prior year figures are for the Company only following the dissolution of the subsidiaries in May 2011

^A 2004 figures restated following the introduction of International Reporting Standards ('IFRS') Figures for 2003 and earlier have not been restated

Cumulative Performance

Rebased to 100 at 31 March 2002

As at 31 March	2002	2003	2004 ^A	2005	2006	2007	2008	2009	2010	2011	2012
NAV	100.0	47.1	62.6	71.6	86.2	88.2	66.0	31.2	49.0	51.8	50.6
NAV total return ^B	100.0	50.6	73.7	91.4	117.8	128.2	102.0	53.2	94.3	106.2	110.6
Share price performance	100.0	42.6	67.4	80.0	94.3	93.5	66.2	32.8	55.3	57.1	58.5
Share price total return ^B	100.0	45.7	80.0	103.4	130.5	137.6	104.0	57.5	109.7	120.8	132.0
Benchmark performance	100.0	67.9	85.9	96.1	119.2	128.4	114.5	77.6	113.8	120.0	117.4
Benchmark total return ^B	100.0	70.2	91.9	106.2	136.0	151.2	139.5	98.6	150.1	163.2	165.5

NAV figures are based on Company only values following the dissolution of the subsidiaries in May 2011

^A 2004 figures restated following the introduction of International Reporting Standards ('IFRS') Figures for 2003 and earlier have not been restated

^B Total return figures are based on reinvestment of net income

Investment Portfolio – Ordinary shares

As at 31 March 2012

Company	Valuation 2012 £'000	Total portfolio %	Valuation 2011 £'000 ^B
Aberdeen Smaller Companies High Income Trust	4,640	6.5	5,340
British American Tobacco	3,403	4.8	3,152
Royal Dutch Shell ^A	3,049	4.3	2,970
Vodafone	2,624	3.7	2,690
Centrica	2,434	3.4	2,375
GlaxoSmithKline	2,318	3.3	1,974
BP	1,984	2.8	1,948
National Grid	1,955	2.8	1,841
HSBC Holdings	1,809	2.6	1,795
AstraZeneca	1,767	2.5	1,821
Ten largest investments	25,983	36.7	
Unilever	1,756	2.5	1,503
Prudential	1,697	2.4	1,448
Tesco	1,673	2.4	1,372
BHP Billiton	1,555	2.2	1,351
Provident Financial	1,364	1.9	1,498
Close Brothers	1,335	1.9	1,436
Rolls Royce	1,299	1.8	1,232
Morrison (Wm)	1,275	1.8	889
Aviva	1,220	1.7	1,593
Chesnara	1,219	1.7	1,604
Twenty largest investments	40,376	57.0	
Land Securities	1,085	1.5	1,101
Cobham	932	1.3	937
AMEC	886	1.2	954
Schroders	885	1.2	902
Whitbread	861	1.2	1,034
Standard Chartered	844	1.2	746
Associated British Foods	817	1.2	823
Pearson	792	1.1	748
GKN	736	1.0	717
Weir Group	653	0.9	734
Thirty largest investments	48,867	68.8	
Experian	634	0.9	–
Compass	577	0.8	–
Total Ordinary shares	50,078	70.5	

Investment Portfolio – Other Investments

As at 31 March 2012

Company	Valuation 2012 £'000	Total portfolio %	Valuation 2011 £'000 ^b
Convertibles			
Premier Farnell 89 2p Cum Conv	689	10	687
Balfour Beatty Cum Conv 10 75%	618	09	642
Total Convertibles	1,307	19	
Preference shares			
Ecclesiastical Insurance Office 8 5/8%	4,791	68	4,664
Royal & Sun Alliance 7 3/8%	4,437	63	4,318
General Accident 7 875%	3,504	49	3,477
Standard Chartered 8 25%	3,145	44	3,156
Santander 10 375%	2,632	37	2,884
REA Holdings 9%	1,056	15	1,112
Total Preference shares	19,565	276	
Total other investments	20,872	295	
Total investments	70,950	1000	

^a Holding comprises 'A' and 'B' class shares valued at £1,083,000 (2011 – nil) and £1,966,000 (2011 – £2,970,000) respectively

^b Purchases and/or sales effected during the year will result in 2011 and 2012 values not being directly comparable

Distribution of Assets and Liabilities

As at 31 March 2012

	Valuation at		Movement during the year				Valuation at	
	31 March 2011 £'000	%	Purchases £'000	Sales £'000	Other £'000	Gains/ (losses) £'000	31 March 2012 £'000	%
Listed investments								
Ordinary shares	51,693	88.1	4,559	(5,416)	–	(758)	50,078	87.4
Convertibles	1,329	2.3	–	–	185	(207)	1,307	2.3
Preference shares	21,295	36.3	–	(1,320)	(86)	(324)	19,565	34.2
Total investments	74,317	126.7	4,559	(6,736)	99	(1,289)	70,950	123.9
Current assets	3,120	5.3					4,534	7.9
Current liabilities	(18,798)	(32.0)					(18,199)	(31.8)
Net assets	58,639	100.0					57,285	100.0
Net asset value per Ordinary share	197.5p						192.9p	

Both current and prior year figures are for the Company only following the dissolution of the subsidiaries in May 2011

Analysis of Listed Equity Portfolio

Shires Income PLC relative to the FTSE All-Share Index

Note Financials include the Company's investment in Aberdeen Smaller Companies High Income Trust

Your Board of Directors

The Directors, all of whom are non-executive and independent of the Manager, supervise the management of Shires Income PLC and represent the interests of shareholders

Anthony B. Davidson C.A.

Status Independent Non-Executive Director - Chairman

Length of Service: 5 years, joined the Board in February 2007

Experience: Currently a non-executive Director of Sun Life Assurance Company of Canada (UK) Limited and a number of life companies within the Phoenix Group. He was previously Chief Executive of Provincial Insurance plc and a Senior Executive Director of TSB Scotland plc

Last re-elected to the Board: 9 July 2010

Committee membership: Audit Committee, Nomination Committee (Chairman), Management Engagement Committee (Chairman)

Remuneration for the financial year: £25,000 per annum

All other public company

directorships: Non-executive director of JPMorgan European Smaller Companies Trust plc

Employment by the Manager: None

Other connections with Company or Manager: None

Shared Directorships with any other Company Directors: None

Shareholding in Company: 10,000 Ordinary shares

Mervyn D. Couve

Status Independent Non-Executive Director

Length of Service: 8 years, joined the Board in October 2003

Experience: Until recently, a Consultant with Speechly Bircham Solicitors where he was previously Managing Partner and Senior Partner. Also a Trustee of English National Opera Trust. He is a former member of the CBI Smaller Firms Council and the CBI Company Law Panel

Last re-elected to the Board: 3 July 2009

Committee membership: Audit Committee, Nomination Committee, Management Engagement Committee

Remuneration for the financial year: £18,000 per annum

All other public company

directorships: Non-executive director of Ecclesiastical Insurance Office plc and Ecclesiastical Insurance Group plc

Employment by the Manager: None

Other connections with Company or Manager: None

Shared Directorships with any other Company Directors: None

Shareholding in Company: 2,000 Ordinary shares

David P Kidd

Status Independent Non-Executive Director

Length of Service: 8 years, joined the Board in February 2004

Experience: He has twenty five years experience in investment management, of which three quarters was in the role of Chief Investment Officer. Currently a Director of The Law Debenture Pension Trust Corporation plc and a non-executive director of The Salvation Army International Trustee Company. Previously Chief Investment Officer of the private bank, Arbuthnot Latham & Co Limited, Chiswell Associates Limited and with The Royal Bank of Scotland's investment management arm

Last re-elected to the Board: 9 July 2010

Committee membership: Audit Committee, Nomination Committee, Management Engagement Committee

Remuneration for the financial year: £18,000 per annum

All other public company

directorships: Non-executive director of Martin Currie Global Portfolio Trust plc

Employment by the Manager: None

Other connections with Company or Manager: None

Shared Directorships with any other Company Directors: None

Shareholding in Company: 5,000 Ordinary shares

Your Board of Directors *continued*

Andrew S. Robson C.A.

Status Independent Non-Executive Director

Length of Service 4 years, joined the Board in May 2008

Experience. He is a Chartered Accountant, with many years of experience in investment banking and as a Finance Director. He was a Director of Robert Fleming & Co Limited and SG Hambros. He was Finance Director at eFinancialGroup Limited and the National Gallery. He has over 10 years of experience on the Boards of a number of quoted Investment Trusts. He is currently a business adviser, working with smaller UK companies.

Last re-elected to the Board. 5 July 2011

Committee membership Audit Committee (Chairman), Nomination Committee, Management Engagement Committee

Remuneration for the financial year £20,000

All other public company

directorships Non-executive director of British Empire Securities and General Trust plc, JP Morgan Smaller Companies Investment Trust plc and Matrix Income & Growth 4 VCT plc

Employment by the Manager None

Other connections with Company or Manager None

Shared Directorships with any other Company Directors None

Shareholding in Company 5,500 Ordinary shares

Directors' Report

Status of the Company

The Company, which was incorporated in 1929, has received approval as an investment trust by HM Revenue & Customs for all accounting periods up to and including 31 March 2011 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 833 of the Companies Act 2006. So far as the Directors are aware, the close company provisions of the Corporation Tax Act 2010 do not apply to the Company. The Company's registration number is 00386561.

Business Review

Activities

The Company is an investment trust. The objective of the Company is set out on page 3 of the report. The Company's two subsidiary undertakings, Topshire Limited and Wiston Investment Company Limited, both of which were investment dealing companies registered in England, having not traded in recent years, made an application to the Registrar of Companies to be voluntarily struck off during the financial year 2011 and were formally dissolved with an effective date of 24 May 2011.

The Company has an 18.1% interest in Aberdeen Smaller Companies High Income Trust PLC, a listed investment trust managed by Aberdeen.

Results and Dividends

The financial statements for the year ended 31 March 2012 appear on pages 30 to 47. Dividends accounted for in the year amounted to 12.0p.

A third interim dividend of 3.0p per Ordinary share was declared on 28 March 2012 payable on 30 April 2012. A final dividend of 3.0p per Ordinary share is proposed, payable 31 July 2012. Under International Financial Reporting Standards (IFRS) both these dividends will be accounted for in the financial year ended 31 March 2013.

Share Capital and Voting Rights

There have been no changes to the Company's issued share capital during the year. The issued Ordinary share capital at 31 March 2012 consisted of 29,697,580 Ordinary shares of 50p and 50,000 3.5% Cumulative Preference Shares of £1 each. At the date of this report, these numbers were unchanged.

Each Ordinary and Preference share of the Company carries one vote at general meetings of the Company.

Current and Future Development

A review of the Company's business is given in the Chairman's Statement and the Manager's Review. Key performance indicators ("KPIs") are shown in the financial information on page 10 with historical performance being shown on pages 11 and 12. 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 25. 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, J.P. 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 and Uncertainties

The principal risks facing the Company relate to the Company's investment activities and gearing and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 17 to the financial statements on page 42.

Investment Policy

Investment Process

The Manager follows a bottom-up investment process based on a disciplined evaluation of companies through direct visits by its fund managers. Stock selection is intended as the major source of added value. No stock is bought without the Manager having first met management. The Manager estimates a company's worth in two stages, quality then price. Quality is defined by reference to management, business focus, the balance sheet and corporate governance. Price is calculated by reference to key financial ratios, the market, the peer group and business prospects. Top-down investment factors are secondary in the Manager's portfolio construction, with diversification rather than formal controls guiding stock and sector weights.

Investment Risk

The investment risk within the portfolio is managed by investing in different categories of investments and by the Manager adhering to various guidelines set by the Board. The Company invests mainly in equities, preference shares and convertibles.

Equity investments are selected in accordance with the investment process above. There are no specific sector limits set, with the Manager free to invest in individual equities that they believe will contribute to both the capital and income performance of the Company. However, the

Directors' Report *continued*

exposure to equities is limited by investment guidelines drawn up by the Board in conjunction with the Manager. In the year under review these guidelines included

- Maximum equity gearing of 135% of Net Asset Value
- Maximum 7.5% of assets invested in the securities of one company (excluding Aberdeen Smaller Companies High Income Trust PLC)
- Maximum 5% of quoted investee company's ordinary shares

The Company also invests in preference shares primarily to enhance the income generation of the Company. The majority of these investments is in large financial institutions. The maximum holding in preference shares is managed by the second guideline referred to above. In addition the Company cannot hold more than 10% of an investee company's preference shares.

The Company enters into traded option contracts again primarily to enhance the income generation of the Company. The risks associated with these option contracts are managed through the principal guidelines below, which operated in the year under review.

- Call options written to be covered by stock
- Put options written to be covered by net current assets/borrowing facilities
- Call options not to be written on more than 100% of a holding of stock
- Call options not to be written on more than 30% of the UK equity portfolio
- Put options not to be written on more than 30% of the UK equity portfolio

During the year under review, the Company's gearing was in the form of bank borrowing, utilising a revolving credit facility. The gearing risk of the Company is actively managed and monitored with the Manager able to increase or decrease the short-term borrowings in line with their view of the stock market. In addition, the 135% equity gearing limit constrains the amount of gearing that can be invested in equities which are more volatile than the fixed interest part of the portfolio.

The Board and the Manager regularly review the requirement for and options available to protect a portion of the portfolio from a sudden decline in markets.

Analysis of Portfolio

A comprehensive analysis of the portfolio is given in the Investment Manager's Review on pages 6 to 9, the Distribution of Assets and Liabilities on pages 15 and 16 and the Investment Portfolio on pages 13 and 14.

Directors

The Directors, who held office throughout the year under review, are shown on pages 17 and 18 of the Annual Report, and their share interests are shown below. Mr M D Couve, having been last re-elected in 2009, retires by rotation and, being eligible, 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 with each Director making a significant contribution to the performance of the Company. Given this, the Board recommends to shareholders the re-election of Mr Couve who is a qualified lawyer with many years of commercial and business experience.

There were no contracts during or at the end of the year in which any Director had a material interest. No Director had a material interest in any investment in which the Company itself had a material interest.

The Directors at 31 March 2012 had no other interest other than those interests, all of which are beneficial interests, shown below in the share capital of the Company.

	31 March 2012	31 March 2011
	Ordinary shares	Ordinary shares
A B Davidson	10,000	10,000
M D Couve	2,000	2,000
D P Kidd	5,000	5,000
A S Robson	5,500	5,500

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 2012 and 6 June 2012.

Annual General Meeting

Among the resolutions being put at the Annual General Meeting of the Company to be held on 19 July 2012, the following resolutions will be proposed.

(i) Section 551 Authority to Allot Shares

Resolution 7, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £4,949,102 representing approximately one third of the total Ordinary share capital of the Company in issue as at the date of this document, such authority to expire on 30 September 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

(ii) Disapplication of Pre-emption Provisions

Resolution 8 is to enable the Directors to issue new shares and to resell shares held in treasury up to an aggregate nominal amount of £1,484,878 (representing approximately 10% of the total Ordinary share capital in issue). Resolution 8, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro rata to existing shareholders, up to a maximum aggregate nominal amount of £1,484,878. Ordinary shares would only be issued for cash at a price not less than the net asset value per share. This authority will expire on 30 September 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this report.

(iii) Purchase of the Company's own Ordinary Shares

Resolution 9, which is a special resolution, will be proposed to renew the Company's authorisation to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (approximately 4.45 million Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) shall be 50p. The maximum price for an Ordinary share (again exclusive of expenses) shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be held in treasury. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 September 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

(iv) Notice Period for General Meetings

The Company's Articles of Association enable the Company to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. In order for this to be effective, the shareholders must also approve the calling of meetings on 14 days' notice by separate resolution. Resolution 10, which is a special resolution, seeks such

approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Companies Act 2006 (as amended by the Shareholders' Rights Regulations) before it can call a general meeting on 14 days' notice.

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling 22,500 Ordinary shares.

Going Concern

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The Company's revolving credit facility matures on 25 February 2014. The Board considers that the Company has adequate financial resources to continue in operational existence for the foreseeable future.

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.

Corporate Governance

The Statement of Corporate Governance which forms part of the Directors' Report is shown on pages 23 to 26.

Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Resolutions re-appointing KPMG Audit Plc as the Company's auditor and authorising the Directors to determine its remuneration will be proposed at the Annual General Meeting.

Additional Information

Where not provided elsewhere in the Directors' Report, the following provides the additional information required to be disclosed by The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Directors' Report *continued*

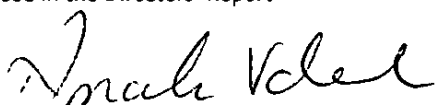
There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law (for example, insider trading law)

The Company is not aware of any agreements between shareholders that may result in a restriction on the transfer of securities and/or voting rights

The rules governing the appointment of Directors are set out in the Statement of Corporate Governance on pages 23 to 26. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company following a takeover

Other than the Investment Management Agreement with the Manager, further details of which are set out on page 3, the Company is not aware of any contractual or other agreements which are essential to its business which ought to be disclosed in the Directors' Report



By order of the Board

Aberdeen Asset Management PLC

Secretary

6 June 2012

Statement of Corporate Governance

Corporate Governance

This Statement of Corporate Governance forms part of the Directors' Report which is shown on pages 19 to 22

Compliance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles identified in the UK Corporate Governance Code published in May 2010 (the "UK Code") which is available on the Financial Reporting Council's website www.frc.org.uk. The Board confirms that the Company has complied throughout the accounting period with the relevant provisions contained within the UK Code.

The Association of Investment Companies ("AIC") has also published a Code of Corporate Governance ("AIC Code") and a Corporate Governance Guide for Investment Companies ("AIC Guide") which are both available on the AIC's website www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all of the principles set out in the Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The Board

The Board currently consists of four non-executive Directors, led by the Chairman, Mr Davidson. There is no Chief Executive position within the Company as day-to-day management of the Company's affairs has been delegated to the Manager, Aberdeen Asset Managers Limited. The Company has no employees and given the size and composition of the Board it is not felt necessary to separate the roles of the Chairman and Senior Independent Director. Biographies of the Directors appear on pages 17 and 18 and these 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 their engagement as a non-executive Director. Copies of these letters are available for inspection at the registered office of the Company during normal business hours and will also be available for fifteen minutes prior to and during the Annual General Meeting.

Subject to the provisions of the Companies Act 2006, each of the Directors is entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities which he may sustain or incur in the execution or purported execution or discharge of his duties or in the exercise or purported exercise of his powers or otherwise in relation to or in connection with his duties, powers or office. The foregoing do not operate to provide an indemnity against any liability attaching to a Director in connection with any

negligence, default, breach of duty or breach of trust in relation to the Company except as permitted by the Companies Act 2006. The Company will not indemnify the Directors against costs incurred by a Director to the Company nor costs incurred in defending criminal proceedings in which judgement is given against the Director. The Company has entered into a separate deed of indemnity with each of the Directors reflecting the scope of the indemnity in the Articles of Association.

Directors' and officers' liability insurance is held by the Company in respect of the Directors.

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 encompasses quantitative and qualitative measures of performance implemented by way of an evaluation survey questionnaire and Board discussion. It also forms the basis of the decision on whether or not Directors are nominated for re-appointment. The appraisal of the Chairman is carried out by the other non-executive Directors. This process has been carried out in respect of the year under review and is conducted on an annual basis. The review concluded that the Board is functioning well, there is an appropriate balance of skills and experience and there are no issues of concern.

Although the Company is not a FTSE 350 company, it intends to comply with certain of the Code provisions which apply to FTSE 350 companies, where the Board believes it is in the best interests of shareholders to do so. The Board is therefore keeping under review the requirement for FTSE 350 companies to carry out, at least every three years, externally facilitated evaluation of the Board, and annual re-election of directors.

The continuing independent and objective judgement of the Directors was confirmed in the annual Board performance and evaluation process and that they continued to devote sufficient time to their roles. The Board evaluation process also confirmed that the performance of the Director standing for re-appointment continued to be effective.

There is a formal process for the consideration and authorisation by the Board of Directors' reported actual and potential conflicts of interest, a full analysis of the Directors' appointments and interests having been considered at each Board meeting. In accordance with the Company's Articles of Association and relevant legislation, each Director abstains from approval of his own position. The Board will continue to

Statement of Corporate Governance continued

monitor and review potential conflicts of interests on a regular basis

The Bribery Act 2010 became effective on 1 July 2011. The Company has a policy of conducting its business in an honest and ethical manner. The Company takes a zero tolerance approach to bribery and corruption and has procedures in place that are proportionate to the Company's circumstances to prevent them. The Manager also adopts a zero tolerance approach and has its own detailed policy and procedures in place to prevent bribery and corruption.

During the year ended 31 March 2012 the Board met seven times. In addition, the Audit Committee met twice, the Nomination Committee once and the Management Engagement Committee once.

Directors have attended Board and Committee meetings during the year ended 31 March 2012 as follows (with their eligibility to attend the relevant meeting in brackets)

Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Management Engagement Committee Meetings
A B Davidson	7 (7)	2 (2)	1 (1)	1 (1)
M D Couve	7 (7)	2 (2)	1 (1)	1 (1)
D P Kidd	6 (7)	2 (2)	1 (1)	1 (1)
A S Robson	7 (7)	2 (2)	1 (1)	1 (1)

The Board has appointed Aberdeen to manage the Company's investment portfolio within guidelines set by the Board and to provide it with accounting and secretarial services. The Board has a formal schedule of matters specifically reserved to it for decision including strategy, Company structure, risk, reviewing the Manager, borrowings, treasury, dividend, and corporate governance policy. Full and timely information, including monthly reports on the Company's activities, is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities. The Board also reviews the financial statements, performance and revenue budgets.

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 Aberdeen as Secretary of the Company.

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 Financial Reporting Council's publication 'Internal Control Revised Guidance for Directors on the Combined Code' and 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. This process has been in place throughout the year under review and up to the date of approval of the Annual Report.

External Agencies

The Board has delegated certain functions. The main service providers are Aberdeen, the Manager and Secretary, HSBC Bank plc, the Custodian, and Equiniti Limited, the Registrars. Aberdeen 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. The independent Custodian 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.

Board Committees

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 the Company's website, or upon request from the Company.

Audit Committee

The Audit Committee comprises all of the Directors of the Company with Mr A S Robson acting as Audit Committee Chairman. The Directors have satisfied themselves that at least one of the Committee's members has recent and relevant financial experience. The Audit Committee meets at least twice a year to coincide with the annual and half yearly reporting and audit cycle. The principal role of the Audit Committee is to review the Annual and Half Yearly financial statements and the accounting policies applied therein and ensure compliance with financial and regulatory reporting requirements. The auditor, KPMG Audit Plc, whose continued appointment is also reviewed and ratified by the Audit Committee, attends at least one meeting of the Audit Committee a year. In addition the Audit Committee reviews the independence of the auditor 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 it has complied with relevant UK independence guidelines. The Audit Committee considers KPMG Audit Plc to be independent both of the Company and the Manager in all respects.

The Audit Committee also reviews the provision of non-audit services by the auditor. There were no fees for non-audit services during the financial year.

The Audit Committee's responsibilities also include reviewing the arrangements in place within Aberdeen 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 and is chaired by Mr A B Davidson. 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 Manager including, but not limited to, the management fee and also to review the performance of the Manager 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 are set out in the Corporate Summary on page 3 and details of the fee charged by Aberdeen in the financial year and how it is calculated are set out in note 3 to the financial statements. The Board believes the fee charged by Aberdeen is competitive with reference to other investment trusts with a similar investment mandate and is priced appropriately given the level of service provided by Aberdeen. The Board reviews the performance of the Manager annually. The Board is satisfied with the performance of the Manager in the year under review, and believes the Manager has positioned the portfolio well in order to achieve good medium-term and long-term performance in line with the Company's objectives. It considers the continuing appointment of the Manager to be in the best interests of shareholders at this time. The notice period is six months.

Nomination Committee

The Nomination Committee comprises all Directors of the Company and is chaired by Mr A B Davidson. The Nomination 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 Board's overriding priority in appointing new Directors to the Board is to identify the candidate with the best range of skills and experience to complement existing Directors. The Board recognises the benefits of diversity, including gender diversity. The Nomination Committee met once during the year.

Remuneration Committee

There is no requirement for the above as the Company has no executive employees. Remuneration details are provided in the Directors' Remuneration Report on page 28.

Board Composition

Under the Articles of Association, new Directors are subject to election at the first Annual General Meeting after their appointment, and all Directors retire in rotation with the selection criteria set out in the Articles of Association. 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 Half Yearly Reports. All shareholders have the opportunity to attend and vote at Annual General Meetings at which Directors and representatives of the Manager are available to discuss key issues affecting the Company. The Manager has 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 request a meeting with the Board. Shareholders and investors may obtain up-to-date information on the Company through the Company's website and the Manager's information services.

As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings. In addition the aim is to give at least twenty working days' notice to shareholders of the Annual General Meeting.

Substantial Interests

As at 6 June 2012 the Company had received notification of the following interests in its Ordinary shares:

Statement of Corporate Governance continued

Shareholder	Number of Ordinary shares held	% held
Axa Investment Management	3,025,825	10.2
Aberdeen Investment Trust Share Plans (non beneficial)	2,941,351	9.9
Legal & General Investment Management	1,204,149	4.1

Responsibilities as an Institutional Shareholder

Responsibility for actively monitoring the activities of investee companies has been delegated by the Board to the Manager. The Manager's Corporate Governance Principles can be found on the Manager's website, at <http://www.aberdeen-asset.com/aam.nsf/AboutUs/governancestewardship>. This document sets out the Manager's framework on corporate governance, proxy voting and shareholder engagement in relation to the companies in which the Manager has invested or is considering investing. The Manager's Statement of Compliance with the UK Stewardship Code also appears on the Manager's website, at the web address given above.

General Policy

The Board delegates to the Manager responsibility for selecting the portfolio of investments, within investment guidelines established by the Board after discussion with the Manager, and for monitoring the performance and activities of investee companies. The Manager carries out detailed research of investee companies and possible future investee companies through internally generated research. 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 Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by the investee company, and for attending company meetings. The Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights. The Manager's policy is to vote on all shares held by the Company and considers each case on its individual merits with the primary aim of the use of voting rights being to ensure a satisfactory return from investments. The Board receives from the Manager regular reports on the exercise by the Manager of the Company's voting rights and discusses with the Manager any issues arising. It is the Board's view that having an active voting policy and a process for the monitoring by the Board of the Manager's exercise of those votes, especially in relation to

controversial issues, aids the efficient exercise of the Company's governance responsibilities.

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 Manager 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. The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of Corporate Governance. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area.

Aberdeen Smaller Companies High Income Trust PLC

The Company has an 18.1% interest in the share capital of this listed investment trust which is also managed by Aberdeen in the same manner as stated in the above General Policy. All of the directors of Aberdeen Smaller Companies High Income Trust PLC are independent of Shires Income PLC. Aberdeen has no control over the management of the interest in Aberdeen Smaller Companies High Income Trust PLC and does not charge any management fee in respect of the amount of Shires Income PLC's net assets attributable to this holding.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Report and Accounts and the financial statements (the 'financial statements') in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing these 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 Company will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company 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 complies 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.

The Directors confirm to the best of their knowledge

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and the profit or loss of the Company, and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

For and on behalf of Shires Income PLC
Andrew S Robson
Audit Committee Chairman
6 June 2012



Directors' Remuneration Report

A separate resolution for the approval of the Directors' Remuneration Report will be put to the members at the forthcoming Annual General Meeting. The outcome of the vote on this resolution has no legal effect and its sole function is to enable shareholders to demonstrate whether or not they are in agreement with the Board's policies in this matter. Accordingly resolution 2 will be proposed as an ordinary resolution to enable shareholders to show whether they approve or not of the contents of the Directors' Remuneration Report. As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board on an annual basis. This Report has been divided into separate sections for unaudited and audited information.

Unaudited Information

Remuneration Policy

The Articles of Association of the Company set a maximum aggregate limit within a financial year for non-executive Directors' remuneration.

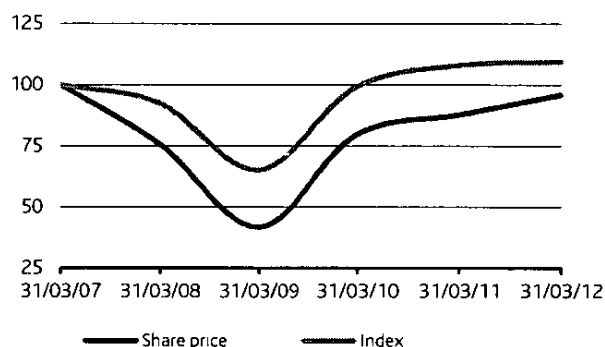
The Board considers that the present policy to remunerate Directors exclusively by fixed fees in cash is appropriate and adequate for the Company in its present and foreseeable circumstances and there are no plans to introduce additional or alternative remuneration schemes.

No Director has a service contract with the Company 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 Director's appointment.

Directors' Remuneration Rates

The annual rates of remuneration with effect from 1 April 2011 were £25,000 for the Chairman, £20,000 for the Audit Committee Chairman and £18,000 for each other Director. These rates applied during the year ended 31 March 2012. The Company's policy is that fees payable to the Directors should reflect the time spent by them on the Company's affairs and should be sufficient to enable candidates of a high quality to be recruited and retained. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits. Following a review by the Nomination Committee, it was agreed that with effect from 1 April 2012, the annual rates of remuneration will be £27,000 for the Chairman, £21,250 for the Audit Committee Chairman and £19,000 for each other Director.

The chart shown below illustrates the total shareholder return for a holding in the Company's shares as compared to the total return on the FTSE All-Share Index (excluding Investment Companies) for the five year period to 31 March 2012 (rebased to 100 at 31/03/07).



Audited Information

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).

	2012 £	2011 £
A B Davidson	25,000	23,000
M D Couve	18,000	16,000
D P Kidd	18,000	16,000
A S Robson	20,000	18,000
	81,000	73,000

The fees payable to M D Couve were paid to a third party. Effective 1 May 2012 fees are now paid directly to Mr Couve.

No Director received any form of remuneration during the present or preceding financial years other than the fees shown above.

Approved by the Board of Directors on 6 June 2012 and signed on its behalf

Anthony B Davidson
Chairman
6 June 2012

Independent Auditor's Report to the Members of Shires Income PLC

We have audited the financial statements of Shires Income PLC for the year ended 31 March 2012 set out in pages 30 to 47. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

Opinion on Financial Statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other Matters Prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following. Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review

- the Directors' Statement, set out on page 21, in relation to going concern,
- the part of the Corporate Governance Statement on pages 23 to 26 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration.



Phil Merchant (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Edinburgh,
6 June 2012

Statement of Comprehensive Income

	Notes	Year ended 31 March 2012			Year ended 31 March 2011		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value	10	-	(1,308)	(1,308)	-	4,012	4,012
Gain on dissolution of subsidiaries		-	66	66	-	-	-
Net currency gain		-	-	-	-	9	9
Investment income							
Dividend income		3,337	-	3,337	3,176	-	3,176
Interest income from investments		670	99	769	761	(129)	632
Stock dividend		70	-	70	31	-	31
Traded option premiums		264	-	264	160	-	160
Deposit interest		-	-	-	1	-	1
Money market interest		11	-	11	6	-	6
Other income		-	-	-	18	-	18
	2	4,352	(1,143)	3,209	4,153	3,892	8,045
Expenses							
Investment management fee	3	(158)	(158)	(316)	(156)	(155)	(311)
VAT recoverable on investment management fees	3	-	-	-	10	11	21
Other administrative expenses	4	(293)	-	(293)	(304)	-	(304)
Finance costs of borrowings	6	(198)	(198)	(396)	(363)	(363)	(726)
		(649)	(356)	(1,005)	(813)	(507)	(1,320)
Profit before taxation		3,703	(1,499)	2,204	3,340	3,385	6,725
Taxation	7	(88)	88	-	(48)	48	-
Profit attributable to equity holders of the Company		3,615	(1,411)	2,204	3,292	3,433	6,725
Earnings per Ordinary share (pence)	9	12.17	(4.75)	7.42	11.09	11.55	22.64

The Company does not have any income or expense that is not included in profit for the year, and therefore the "Profit for the year" is also the "Total comprehensive income for the year", as defined in IAS 1 (revised)

The total column of this statement represents the Statement of Comprehensive Income of the Company, prepared in accordance with IFRS. The revenue and capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies

All items in the above statement derive from continuing operations

The accompanying notes are an integral part of these financial statements

During the year the Company's two subsidiary undertakings, Topshire Limited and Winston Investment Company limited were formally dissolved

The following table shows the revenue for each year under IFRS less the ordinary dividends declared in respect of the financial year to which they relate. This table is for information purposes only and does not form part of the above Statement of Comprehensive Income

	Year to 31 March 2012 ^A £'000	Year to 31 March 2011 ^B £'000
Revenue	3,615	3,292
Dividends declared	(3,564)	(3,564)
	51	(272)

^A Dividends declared relates to first three interim dividends (each 3.0p) and the proposed final dividend (3.0p) declared in respect of financial year 2011/12

^B Dividends declared relates to first three interim dividends (each 3.0p) and the final dividend (3.0p) declared in respect of financial year 2010/11

BALANCE SHEET

		As at 31 March 2012 £'000	As at 31 March 2011 £'000
Non-current assets			
Ordinary shares		50,078	51,693
Convertibles		1,307	1,329
Other fixed interest		19,565	21,295
Securities at fair value	10	70,950	74,317
Current assets			
Trade and other receivables		18	53
Accrued income and prepayments		783	1,086
Cash and cash equivalents		3,733	1,981
	12	4,534	3,120
Total assets		75,484	77,437
Current liabilities			
Trade and other payables		(199)	(298)
Short-term borrowings		(18,000)	(18,500)
	13	(18,199)	(18,798)
Net assets		57,285	58,639
Issued capital and reserves attributable to equity holders			
Called up share capital	14	14,899	14,899
Share premium account	15	18,840	18,840
Capital reserve	16	17,696	19,107
Revenue reserve	16	5,850	5,793
		57,285	58,639
Net asset value per Ordinary share (pence)	9	192.89	197.45

The financial statements were approved by the Board of Directors and authorised for issue on 6 June 2012 and were signed on its behalf by

Anthony B. Davidson
Chairman



The accompanying notes are an integral part of these financial statements

Statement of Changes in Equity

Year ended 31 March 2012

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained revenue reserve £'000	Total £'000
As at 31 March 2011	14,899	18,840	19,107	5,793	58,639
Revenue profit for the year	-	-	-	3,615	3,615
Capital losses for the year	-	-	(1,411)	-	(1,411)
Equity dividends (see note 8)	-	-	-	(3,558)	(3,558)
As at 31 March 2012	14,899	18,840	17,696	5,850	57,285

Year ended 31 March 2011

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained revenue reserve £'000	Total £'000
As at 31 March 2010	14,899	18,840	15,674	6,066	55,479
Revenue profit for the year	-	-	-	3,292	3,292
Capital gains for the year	-	-	3,433	-	3,433
Equity dividends (see note 8)	-	-	-	(3,565)	(3,565)
As at 31 March 2011	14,899	18,840	19,107	5,793	58,639

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend

The accompanying notes are an integral part of these financial statements

Cash Flow Statement

	Year ended 31 March 2012		Year ended 31 March 2011	
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Investment income received		4,310		3,871
Deposit interest received		–		1
Money market interest received		11		6
Investment management fee paid		(318)		(309)
VAT on investment management fees recovered		–		21
Other cash receipts		–		60
Other cash expenses		(308)		(276)
Cash generated from operations		3,695		3,374
Interest paid		(397)		(558)
Tax recovered		–		1
Net cash inflows from operating activities		3,298		2,817
Cash flows from investing activities				
Purchases of investments	(4,489)		(4,295)	
Sales of investments	7,001		7,365	
Net cash inflow from investing activities		2,512		3,070
Cash flows from financing activities				
Equity dividends paid	(3,558)		(3,565)	
Net cash outflow from financing activities		(3,558)		(3,565)
Net increase in cash and cash equivalents		2,252		2,322
Cash and cash equivalents at start of period		(16,519)		(18,850)
Effect of currency gains		–		9
Cash and cash equivalents at end of period		(14,267)		(16,519)
Cash and cash equivalents comprise				
Cash and cash equivalents		3,733		1,981
Short-term borrowings		(18,000)		(18,500)
		(14,267)		(16,519)

Notes to the Financial Statements For the year ended 31 March 2012

1 Accounting policies

(a) Basis of accounting

The financial statements 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 investments and in line with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'. The Directors have sought to prepare the financial statements on a basis consistent with the recommendations of the SORP except as referred to in paragraph (d) below. The financial statements have also been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis. The Directors believe this is appropriate for the reasons outlined in the Directors' Report on page 21.

The subsidiary companies were wound up during the year and therefore consolidated accounts are no longer required to be prepared. Further information can be found in note 11.

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 Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, 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 Company's compliance with certain requirements set out in Sections 1158-1159 of the Corporation Tax Act 2010.

At the date of authorisation of these financial statements, various Standards, amendments to Standards and interpretations which have not been applied to these financial statements, were in issue but were not yet effective (and in some cases, had not yet been adopted by the EU). These have not been applied to these financial statements.

- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (effective for annual periods beginning on or after 1 July 2011)
- Amendments to IFRS 7 – Financial Instruments: Transfers of Financial Assets Disclosures (effective for annual periods beginning on or after 1 July 2011)
- IFRS 9 – Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015)
- IFRS 10 – Consolidated Financial Statements (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 – Joint Arrangements (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12 – Disclosure of Interests in Other Entities (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13 – Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 12 – Income Taxes – Deferred Tax Amendment (effective for annual periods beginning on or after 1 January 2012)
- Amendments to IAS 19 – Employee Benefits (effective for annual periods on or after 1 January 2013)
- IAS 27 – Separate Financial Statements (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013)
- IAS 28 – Investments in Associates and Joint Ventures (early adoption permitted) (effective 1 January 2013)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

(b) Investments

All investments have been designated upon initial recognition at fair value through profit or loss. This is because all investments are considered to form part of a group of financial assets which is evaluated on a fair value basis. Investments are recognised or derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned. Proceeds are measured at fair value which is regarded as the proceeds of sales less any transaction costs.

The fair value of the financial instruments is based on their quoted bid price at the Balance Sheet date, without deduction for any estimated future selling costs.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as "Gains/(losses) on investments". Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

(c) 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 have 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 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 included in the price of 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.

(d) Expenses

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

(e) 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 50% to revenue and 50% to capital.

Notes to the Financial Statements continued

(f) Taxation

The tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income 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 Company has no liability for current tax.

Deferred tax is provided in full on temporary 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. Temporary 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.

(g) Foreign currencies

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. Any 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.

2	2012	2011
	£'000	£'000
Income		
Income from listed investments		
Dividend income	3,337	3,176
Interest income from investments	670	761
Money market interest	11	6
Stock dividend	70	31
	4,088	3,974
Other income from investment activity		
Deposit interest	–	1
Traded option premiums	264	160
Interest on VAT recovered on investment management fees	–	1
Other income	–	17
	264	179
Total income	4,352	4,153
Total income comprises	2012	2011
	£'000	£'000
Dividends and interest from investments	4,088	3,974
Deposit interest	–	1
Interest on VAT recoverable on investment management fees	–	1
Other income from investment activity	264	177
Total income	4,352	4,153

All dividend income was received from UK companies. The amount of £99,000 (2011 – (£129,000)) 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(c).

3	Investment management fees	2012			2011		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
	Investment management fees	158	158	316	156	155	311

For the year ended 31 March 2012 management and secretarial services were provided by Aberdeen Asset Managers Limited. The fee is 0.45% for funds up to £100 million and 0.40% for funds over £100 million, calculated monthly and paid quarterly. The fee is allocated 50% to revenue and 50% to capital.

On 5 November 2007, the European Court of Justice ruled that management fees on investment trusts should be exempt from VAT.

The Manager has refunded £432,000 to the Company, representing all VAT charged on investment management fees for the period 1 January 2004 to 30 September 2007. This sum was included in the financial statements for the years ended 31 March 2009 and 2010. In addition a further £21,000, excluding interest thereon of £1,000, has been refunded by the Manager and included in the previous year's financial statements. This repayment related to VAT charged on investment management fees for the period 1 January 2001 to 31 December 2003 and was allocated to revenue and capital in line with the accounting policy of the Company for the period in which the VAT was charged.

The Company has not been charged VAT on its investment management fees from 1 October 2007.

4	Administrative expenses	2012 £'000	2011 £'000
	Directors' remuneration	81	73
	Fees payable to auditors and associates (net of VAT)		
	· fees payable to the Company's auditors for the audit of the annual accounts	18	17
	Marketing contribution paid to Aberdeen	66	50
	Professional fees	13	27
	Registrars fees	36	36
	Printing, postage and stationery	20	23
	Other administrative expenses	59	78
		293	304

5 Directors' remuneration

The Company had no employees during the year (2011 – nil). No pension contributions were paid for Directors (2011 – £nil). Further details on Directors' Remuneration can be found in the Directors' Remuneration Report on page 28.

6	Finance costs and borrowings	2012			2011		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
	Bank loans and overdrafts repayable within five years	198	198	396	363	363	726

7 Taxation

At 31 March 2012 the Company had surplus management expenses and loan relationship debits with a tax value of £5,487,000 (2011 – £6,396,000) 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.

Notes to the Financial Statements continued

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 26% (2011 – 28%)

	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
Profit before taxation	3,703	(1,499)	2,204	3,340	3,385	6,725
Taxation of return on ordinary activities at the standard rate of corporation tax	962	(390)	572	935	948	1,883
Effects of						
UK dividend income not liable to further tax	(854)	–	(854)	(874)	–	(874)
Non taxable stock dividends	(18)	–	(18)	(9)	–	(9)
Tax relief obtained by expenses capitalised	88	(88)	–	48	(48)	–
Non taxable overseas dividends	(2)	–	(2)	(4)	–	(4)
Brought forward management expenses utilised	(92)	–	(92)	(142)	–	(142)
Current year management expenses not utilised	4	67	71	94	178	272
Capital losses/(gains) disallowed for the purposes of corporation tax	–	323	323	–	(1,126)	(1,126)
Taxation charge for the year	88	(88)	–	48	(48)	–

8 Dividends	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period		
Third interim dividend for the year ended 31 March 2011 of 3 Op (2010 – 3 Op) per share	891	891
Final dividend for the year ended 31 March 2011 of 3 Op (2010 – 3 Op) per share	891	891
First two interim dividends for the year ended 31 March 2012 totalling 6 Op (2011 – 6 Op) per share	1,782	1,781
Refund of unclaimed dividends from previous periods	(8)	–
	3,556	3,563
3 5% Cumulative Preference shares	2	2

The third interim dividend of 3 Op for the year to 31 March 2012 paid on 30 April 2012 and the proposed final dividend for the year to 31 March 2012 payable on 31 July 2012 have not been included as liabilities in these financial statements

We also set out below the total ordinary dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered

	2012 £'000	2011 £'000
Three interim dividends for the year ended 31 March 2012 totalling 9 Op (2011 – 9 Op) per share	2,673	2,673
Final proposed dividend for the year ended 31 March 2012 of 3 Op (2011 – 3 Op) per share	891	891
	3,564	3,564

9 Return and net asset value per share

The gains per share are based on the following figures

	2012 £'000	2011 £'000
Revenue return	3,615	3,292
Capital return	(1,411)	3,433
Net return	2,204	6,725
Weighted average number of Ordinary shares	29,697,580	29,697,580

Net asset value per Ordinary share is based on net assets attributable to Ordinary shareholders of £57,285,000 (2011 – £58,639,000) and on the 29,697,580 (2011 – 29,697,580) Ordinary shares in issue at 31 March 2012

10 Non current assets – Securities at fair value

Listed on recognised stock exchanges

	2012 £'000	2011 £'000
United Kingdom	70,950	74,317

	Listed investments £'000	2012 Restricted investments £'000	Total £'000	Listed investments £'000	2011 Restricted investments £'000	Total £'000
Cost at 31 March 2011	70,306	141	70,447	70,828	648	71,476
Investment holdings gains/(losses) at 31 March 2011	4,011	(141)	3,870	1,723	(176)	1,547
Fair value at 31 March 2011	74,317	–	74,317	72,551	472	73,023
Purchases	4,559	–	4,559	4,295	–	4,295
Sales – proceeds	(6,736)	–	(6,736)	(6,250)	(633)	(6,883)
Sales – net realised gains/(losses)	377	(2)	375	1,562	126	1,688
Amortised cost adjustments to debt securities [^]	99	–	99	(129)	–	(129)
Fair value movement in the year	(1,666)	2	(1,664)	2,288	35	2,323
Fair value at 31 March 2012	70,950	–	70,950	74,317	–	74,317

[^] Charged to capital

	Listed investments £'000	2012 Restricted investments £'000	Total £'000	Listed investments £'000	2011 Restricted investments £'000	Total £'000
Cost at 31 March 2012	68,605	139	68,744	70,306	141	70,447
Investment holdings gains/(losses) at 31 March 2012	2,345	(139)	2,206	4,011	(141)	3,870
Fair value at 31 March 2012	70,950	–	70,950	74,317	–	74,317

Notes to the Financial Statements continued

Gains/(losses) on investments	2012	2011
	£'000	£'000
Net realised gains on sales of investments	465	1,695
Call options exercised	(90)	(7)
Net realised gains on sales	375	1,688
Movement in fair value of investments	(1,568)	2,433
Put options assigned	(96)	(110)
Movement in (depreciation)/appreciation of traded options held	(19)	1
	(1,308)	4,012

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 £264,000 (2011 – £160,000) have been dealt with in the revenue account.

The movement in the fair value of traded option contracts has been calculated in accordance with the accounting policy stated in note 1(c) and has been charged to the capital reserve.

As at 31 March 2012, the Company had pledged collateral equal to 708% of the market value of the traded options in accordance with standard commercial practice. The carrying amount of financial assets pledged equated to £1,870,000 all in the form of securities. The collateral position, which has not been adjusted down in line with the reduced traded option activity, is monitored on a daily basis.

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Statement of Comprehensive Income. The total costs on the purchases and sales of investments in the year was £19,000 (2011 – £32,000).

All investments are categorised as held at fair value through profit and loss and were designated as such upon initial recognition.

At 31 March 2012 the Company held the following investments comprising more than 3% of the class of share capital held:

Company	Country of incorporation	Number of shares held	Class of shares held	Class held %
Aberdeen Smaller Companies High Income Trust PLC	Scotland	4,000,000	ordinary	18.1%
REA Holdings	England	996,720	9% cum pref	3.7%
Ecclesiastical Insurance Office	England	4,240,000	8.5/8% cum pref	4.0%
Royal Sun Alliance	England	4,350,000	7.3/8% cum pref	3.5%
General Accident	Scotland	3,548,000	7.875% cum pref	3.2%

11 Subsidiary undertakings and subsequent events

As at 31 March 2011, 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 were investment dealing companies registered in England. Having not traded in recent years, both companies made an application to the Registrar of Companies to be voluntarily struck off during the year to 31 March 2011 and were formally dissolved with an effective date of 24 May 2011.

	2012 £'000	2011 £'000
12 Current assets		
Investment sales	8	–
Accrued income & prepayments	783	1,086
Other debtors	10	53
Cash and cash equivalents	3,733	1,981
	4,534	3,120

None of the above amounts is overdue

	2012 £'000	2011 £'000
13 Current liabilities		
Bank loans	18,000	18,500
Other creditors	199	298
	18,199	18,798

Included above are the following amounts owed to Aberdeen, the Manager and Secretary

	2012 £'000	2011 £'000
Other creditors	79	81

In February 2011 the Company entered into a two year agreement with Scotiabank Europe PLC to provide a loan facility for up to £20,000,000. Subsequent to this agreement, the facility has been extended to February 2014. At the year end £18,000,000 had been drawn down at an all-in interest rate of 2.05245% which matured on 30 April 2012. At 31 May 2012 the principal amount drawn down was £18,000,000 at an all-in interest rate of 2.02767%, maturing on 29 June 2012.

The terms of the Scotiabank Europe facility contain a covenant that gross borrowings may not exceed one-third of adjusted net assets. The Company met this covenant since inception of the agreement until the date of this Report.

	2012		2011	
	Number	£'000	Number	£'000
14 Called up share capital				
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 50 pence each	29,697,580	14,849	29,697,580	14,849
3.5% Cumulative Preference shares of £1 each	50,000	50	50,000	50
		14,899		14,899

The Company manages its capital to ensure that it will be able to continue as a going concern.

The capital structure of the Company consists of debt, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings. Details of how the capital is managed are explained in the Directors' Report.

The Company does not have any externally imposed capital requirements.

	2012 £'000	2011 £'000
15 Share premium account		
At 31 March 2012 and 2011	18,840	18,840

Notes to the Financial Statements continued

16 Retained earnings	2012 £'000	2011 £'000
Capital reserve		
At 31 March 2011	19,107	15,674
Net gains on sales of investments during year	375	1,688
Movement in fair value (losses)/gains on investments	(1,664)	2,323
Amortised cost adjustment charged to capital	99	(129)
Investment management fees	(158)	(155)
VAT recoverable on investment management fees	–	11
Interest on bank loans and overdrafts repayable within five years	(198)	(363)
Net currency gain	–	9
Tax relief obtained by expenses capitalised	88	48
Dissolution of subsidiary	66	–
Traded options	(19)	1
At 31 March 2012	17,696	19,107
Revenue reserve		
At 31 March 2011	5,793	6,066
Revenue	3,615	3,292
Dividends paid	(3,558)	(3,565)
At 31 March 2012	5,850	5,793

17 Risk management, financial assets and liabilities

Risk management

The Company's objective is 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

The impact of security price volatility is reduced by diversification. Diversification is by type of security – ordinary shares, preference shares, convertibles, corporate fixed interest and gilt-edged 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 Manager, which specify the limits within which the Manager is authorised to act.

The Manager has a dedicated investment management process, as disclosed in the Directors' Report on page 19, which aims to ensure that the investment objective explained on page 3 is achieved. Stock selection procedures are in place based on the active portfolio management and identification of stocks. The portfolio is reviewed on a periodic basis by a Senior Investment Manager and also by the Manager's Investment Committee.

The Company's Manager has an independent Investment Risk department for reviewing the investment risk parameters of all core equity, balanced, fixed income and alternative asset classes on a regular basis. The department reports to the Manager's Performance & Investment Risk Committee which is chaired by the Manager's Chief Investment Officer. The department's responsibility is to review and monitor ex-ante (predicted) portfolio risk and style characteristics using best practice, industry standard multi-factor models.

Additionally, the Manager's Compliance department continually monitors the Company's investment and borrowing powers and reports to the Manager's Risk Management Committee.

Financial assets and liabilities

The Company's financial assets include investments, cash at bank and short-term debtors. Financial liabilities comprise a

bank loan and other short-term creditors. The Company may from time to time use FTSE options for protection of the loss of value to the portfolio at modest cost.

Gearing

Short-term borrowing consisting of revolving credit facilities from banking institutions is also used. The gearing risk is actively managed and monitored as part of the overall investment strategy. The employment of gearing magnifies the impact on net assets of both positive and negative changes in the value of the Company's portfolio of investments.

The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk, currency risk and other price risk), (ii) liquidity risk and (iii) credit risk. The Company has minimal exposure to foreign currency risk as it holds only a small amount of foreign currency assets and has no exposure to any foreign currency liabilities.

The Company is subject to interest rate risk because bond yields are linked to underlying bank rates or equivalents, and its 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 Company.

(i) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate movements may affect

- the fair value of the investments in fixed interest rate securities,
- the level of income receivable on cash deposits, and
- interest payable on the Company's variable rate borrowings.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

Interest rate profile

The interest rate risk profile of the portfolio of financial assets and liabilities (excluding ordinary shares and convertibles) at the Balance Sheet date was as follows:

As at 31 March 2012	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000
Assets					
UK irredeemable preference shares	–	7.01	19,565	–	–
Cash	–	0.38	–	3,733	–
Total assets	–	–	19,565	3,733	–

Notes to the Financial Statements continued

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000
Liabilities					
Short-term bank loan	0.08	2.05	(18,000)	-	-
Total liabilities	-	-	(18,000)	-	-

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000
As at 31 March 2011					
Assets					
UK irredeemable preference shares	-	6.91	19,610	-	-
UK preference shares	38.69	14.00	1,685	-	-
Cash	-	0.43	-	1,981	-
Total assets	-	-	21,295	1,981	-
Liabilities					
Short-term bank loan	0.08	1.97	(18,500)	-	-
Total liabilities	-	-	(18,500)	-	-

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loans is based on the interest rate payable, weighted by the total value of the loans.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

The UK irredeemable preference shares assets have no maturity date.

Short-term debtors and creditors (with the exception of loans) have been excluded from the above tables.

Maturity profile

The maturity profile of the Company's financial assets and financial liabilities (excluding convertibles) at the Balance Sheet date was as follows:

	Within 1 year £'000	Within 1-5 years £'000	More than 5 years £'000
At 31 March 2012			
Fixed rate			
UK irredeemable preference shares	-	-	19,565
Short-term bank loan	-	(18,000)	-
	-	(18,000)	19,565
Floating rate			
Cash	3,733	-	-
Total	3,733	(18,000)	19,565

At 31 March 2011	Within 1 year £'000	Within 1-5 years £'000	More than 5 years £'000
Fixed rate			
UK irredeemable preference shares	–	–	16,726
UK preference shares	–	–	4,569
Short-term bank loan	–	(18,500)	–
	–	(18,500)	21,295
Floating rate			
Cash	1,981	–	–
Total	1,981	(18,500)	21,295

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the Balance Sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's

- profit before tax for the year ended 31 March 2012 would increase/decrease by £37,000 (2011 – £20,000) This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances. These figures have been calculated based on cash positions at each year end
- profit before tax for the year ended 31 March 2012 would increase/decrease by £1,076,000 (2011 – increase/decrease by £517,000) This is also mainly attributable to the Company's exposure to interest rates on its fixed interest securities. This is based on a Value at Risk ("VaR") calculated at a 99% confidence level

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the interest rate risk management process used to meet the Company's objectives. The risk parameters used will also fluctuate depending on the current market perception

Other price risk

Other price risks (ie changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets to specific sectors and the stock selection process, as detailed on page 19, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are listed on the London Stock Exchange

Other price sensitivity

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the profit before tax attributable to Ordinary shareholders for the year ended 31 March 2012 would have increased/decreased by £5,008,000 (2011 – increase/decrease of £5,169,000). This is based on the Company's equity portfolio held at each year end

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities

Notes to the Financial Statements continued

Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of a revolving credit facility (note 13)

(iii) Credit risk

This is failure of the counter party to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss

The risk is not considered to be significant as it is actively managed as follows

- where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default,
- investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk,
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default,
- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker,
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to Custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's Compliance department carries out periodic reviews of the Custodian's operations and reports its findings to the Manager's Risk Management and to the Board of the Company. This review will also include checks on the maintenance and security of investments held,
- transactions involving derivatives, structured notes and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest are subject to rigorous assessment by the Investment Manager of the credit worthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board, and
- cash is held only with reputable banks with high quality external credit enhancements

It is the Manager's policy to trade only with A- and above (Long Term rated) and A-1/P-1 (Short Term rated) counterparties

None of the Company's financial assets are secured by collateral or other credit enhancements

Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 March 2012 was as follows

	2012		2011	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Securities at fair value through profit or loss	70,950	70,950	74,317	74,317
Current assets				
Trade and other receivables	18	18	53	53
Accrued income	783	783	1,086	1,086
Cash and cash equivalents	3,733	3,733	1,981	1,981
	75,484	75,484	77,437	77,437

None of the Company's financial assets is past due or impaired

Fair value of financial assets and liabilities

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 fair value. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices. For details of bond maturities and interest rates, see page 14. Traded options contracts are valued at fair value which have been determined with reference to quoted market values of the contracts. The contracts are tradeable on a recognised exchange. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

18 Fair value hierarchy

IFRS 7 'Financial Instruments: Disclosures' require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices), and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 March 2012 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	70,950	–	–	70,950
Financial liabilities at fair value through profit or loss					
Derivatives	b)	(59)	–	–	(59)
Net fair value		70,891	–	–	70,891

a) Quoted equities

The fair value of the Company's investments in quoted equities has been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Fair Value Level 1 are actively traded on recognised stock exchanges.

b) Derivatives

The fair value of the Company's investments in derivatives has been determined using observable market inputs on an exchange traded basis and therefore have been classed as Level 1.

Marketing

Shires Income PLC contributes to the marketing programme run by Aberdeen Asset Managers Limited ("Aberdeen") on behalf of a number of investment trusts under its management. Under this agreement the Company's contribution is matched by Aberdeen. This contribution is reviewed annually.

The purpose of the Programme is to communicate effectively with existing shareholders and attract new shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares. Aberdeen's experience has also shown that well targeted marketing of the Company's investment merits through packaged products, whether singly, or in conjunction with other trusts run by Aberdeen, can be a cost-effective way of gaining new investors.

These aims can be met in several ways:

Investor Relations Programme

Aberdeen runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month institutional investors and prospects receive a Manager's report on your Company that includes detailed performance analysis.

Group Schemes

The Aberdeen Group administers several savings schemes including the Share Plan, ISA and the Children's Plan. These schemes allow investment at lower costs and have proved popular with private investors.

Direct Response Advertising

Aberdeen advertises the packaged product availability of the Company in the specialist financial press.

Direct Mail

Periodic mail shots of information packs inviting named addressees to respond is a low cost method of building awareness and investor databases. Target groups include existing holders of other Aberdeen investment trusts as well as known buyers of investment trusts.

Newsletter

'The Bulletin' newsletter, an informed commentary on markets and investment trusts managed by Aberdeen, is distributed free of charge.

Public Relations

Aberdeen undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

Shareholder Services

Aberdeen runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately. The Marketing Programme is under the direction of Aberdeen's Group Head of Marketing, who has considerable experience in the marketing and communications of investment products. He is supported by a team of marketing professionals.

Internet

The Company has its own dedicated website at www.shiresincome.co.uk. This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports.

The Company is committed to the close monitoring of the Marketing Programme. The Group Head of Marketing reports to the Board and provides a written summary quarterly.

If you have any questions about your Company, the Manager or performance, please telephone Aberdeen's Investor Services Department on 0500 00 00 40. Alternatively, internet users may e-mail inv.trusts@aberdeen-asset.com or write to Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex, CM99 2DB.

How to Invest in Shires Income PLC

Direct

Investors can buy and sell shares directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan and Investment Trust ISA.

Aberdeen's Investment Plan for Children

Aberdeen Asset Managers Limited ("Aberdeen") runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including Shires Income PLC. Anyone can invest in the Children's Plan, including parents, grandparents and family friends. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

Aberdeen's Investment Trust Share Plan

Aberdeen runs a Share Plan (the "Plan") through which shares in Shires Income PLC can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Stocks and Shares ISA

An investment of up to £11,280 in Shires Income PLC can be made through Aberdeen's Stocks and Shares ISA in the tax year 2012/2013.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT. The annual ISA administration

charge is £24 + VAT calculated annually and deducted on 31 March (or the last business day in March) either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

You can choose to transfer previous tax year investments to Aberdeen which can be invested in Shires Income PLC while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

Company Information

If investors would like details of Shires Income PLC or information on the Children's Plan, Share Plan, or ISA please telephone 0500 00 00 40 or write to Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex, CM99 2DB or e-mail invtrusts@aberdeen-asset.com. Details are also available on www.invtrusts.co.uk.

Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact
Telephone 0500 00 00 40
Email aam@lit-request.com

How to Invest in Shires Income PLC continued

Keeping You Informed

The Company's share price appears under the heading 'Investment Companies' in the Financial Times, and other national newspapers

For internet users, detailed data on Shires Income PLC, including price, performance information and a monthly fact sheet is available from the Company's website (www.shiresincome.co.uk) and the TrustNet website (www.trustnet.co.uk). Alternatively you can call 0500 00 00 40 for trust information

Contact

For information on Shires Income PLC and for any administrative queries relating to the Investment Plan for Children, Share Plan, ISA or ISA transfer please contact

Aberdeen Investment Trusts
PO Box 11020
Chelmsford
Essex, CM99 2DB
Telephone 0500 00 00 40
Email inv.trusts@aberdeen-asset.com

Alternatively if you have an administrative query which relates to a certificated holding, please contact the Registrar as follows

Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
Telephone 0871 384 2508*
Textphone 0871 384 2255*
Website www.shareview.co.uk

* Calls to this/these numbers are charged at 8p per minute from a BT landline, other providers' costs may vary. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday
Tel International +44 121 415 7047

The above information has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Services Authority

Glossary of Terms and Definitions

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 income securities, which can be converted into equity shares at a future date.

Discount

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

Dividend Cover

Earnings per share divided by dividends per share expressed as a ratio.

Dividend Yield

The annual dividend expressed as a percentage of the share price.

Gearing

Total gearing is the proportion of the Company'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.

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

Net Asset Value

The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.

Premium

The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

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.

Prior Charges

The name given to all borrowings including debentures, loan and short-term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.

Total Expense Ratio

Ratio of expenses as percentage of average shareholders' funds calculated as per the industry standard Lipper Fitzrovia method.

Total Return

Total Return involves reinvesting the net dividend in the month that the share price goes up. The NAV Total Return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, e.g. quarter end, half year or year end date.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the eighty fourth Annual General Meeting of the Members of Shires Income PLC ("the Company") will be held at the offices of Aberdeen Asset Management PLC, Bow Bells House, 1 Bread Street, London, EC4M 9HH on Thursday 19 July 2012 at 12 noon to transact the following business

To consider and, if thought fit, pass the following as ordinary resolutions:

- 1 To receive and adopt the Directors' Report and audited financial statements of the Company for the year ended 31 March 2012 together with the Auditor's Report thereon
- 2 To receive and adopt the Directors' Remuneration Report for the year ended 31 March 2012
- 3 To approve a final dividend of 3.0p per Ordinary share in respect of the year ended 31 March 2012
- 4 To re-appoint Mr M D Couve as a Director of the Company
- 5 To re-appoint KPMG Audit Plc as auditor of the Company to hold office from the conclusion of the Meeting to the conclusion of the next meeting at which accounts are laid before the Company
- 6 To authorise the Directors to determine the remuneration of KPMG Audit Plc as auditor of the Company
- 7 That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £4,949,102, being equal to approximately one third of the Ordinary shares in issue, such authority to expire on 30 September 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired

To consider and, if thought fit, pass the following as special resolutions:

- 8 That, subject to the passing of resolution 7 in the notice convening the meeting at which this resolution is to be proposed (the "notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560 (1) of the Act) for cash pursuant to the authority under section 551 of the Act conferred by resolution 7 in the notice of meeting as if section 561 of the Act did not apply to any such allotment, provided that this power
 - (i) expires on 30 September 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired, and
 - (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,484,878 being equal to approximately 10% of the Ordinary shares in issue

This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 7 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting")" and "pursuant to the authority under section 551 of the Act conferred by resolution 8 in the notice of meeting" were omitted

- 9 That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with section 701 of the Companies Act 2006 (the "Act"), to make market purchases (within the meaning of section 693(4) of the Act) of fully paid Ordinary shares of 50p each in the capital of the Company ("shares") provided that
 - (i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £2,225,833 being equal to approximately 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution,
 - (ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses),
 - (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the

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- London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out, and
- (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 September 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired
- 10 That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 clear days' notice provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution

By order of the Board
Aberdeen Asset Management PLC
Secretary

13 June 2012

Notes:

- (i) A member is entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote on their behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. If a member wishes to appoint more than one proxy, they should contact the Company's Registrars on 0871 384 2508 (Calls to this number are charged at 8p per minute from a BT landline, other providers' costs may vary. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday). The Equiniti overseas helpline number is +44 121 415 7047.
- (ii) A form of proxy for use by members is enclosed with these accounts. Completion and return of the form of proxy will not prevent any member from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, at the address stated thereon, so as to be received not less than 48 hours (excluding non-working days) before the time of the meeting.
- (iii) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend and vote at the Meeting a member must first have his or her name entered in the Company's register of members at 6.00 p.m. on 17 July 2012 (or, in the event that the Meeting is adjourned, at 6.00 p.m. on the day which is two business days before the time of the adjourned meeting). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the Meeting.
- (iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (v) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) not less than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- (vi) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has

Notice of Annual General Meeting continued

- appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings
- (vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001
 - (viii) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in notes i) and ii) above does not apply to Nominated Persons. The rights described in these notes can only be exercised by members of the Company
 - (ix) No Director has a service contract with the Company but copies of Directors' letters of appointment will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and Scottish public holidays excepted) from the date of this notice and for at least 15 minutes prior to the Meeting and during the Meeting
 - (x) As at close of business on 6 June 2012 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 29,697,580 Ordinary shares of 50p each. The total number of voting rights in the Company as at 6 June 2012 is 29,697,580
 - (xi) Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules
 - (xii) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares
 - (xiii) The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditor's Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address, and be sent to the Company Secretary, Shires Income PLC, 40 Princes Street, Edinburgh EH2 2BY
 - (xiv) Information regarding the Meeting, including information required by section 311A of the Companies Act 2006, is available from the Company's website, www.shiresincome.co.uk
 - (xv) Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the Meeting put by a member attending the Meeting unless
 - a) answering the question would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information,
 - b) the answer has already been given on a website in the form of an answer to a question, or
 - c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered
 - (xvi) Shareholders are advised that, unless otherwise stated, any telephone number, website or e-mail address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated
 - (xvii) There are special arrangements for holders of shares through the Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan and Investment Trust ISA. These are explained in the 'Letter of Direction' which such holders will have received with this report

Corporate Information

Manager**Aberdeen Asset Managers Limited**

40 Princes Street
Edinburgh
EH2 2BY

Company Secretary**Aberdeen Asset Management PLC**

40 Princes Street
Edinburgh
EH2 2BY

Registered Office**Aberdeen Asset Management PLC**

Bow Bells House
1 Bread Street
London
EC4M 9HH

Auditor

KPMG Audit Plc

Solicitors

Maclay Murray & Spens LLP

Stockbroker

J P Morgan Cazenove Limited

Registrars

Equiniti Limited

Aspect House

Spencer Road

Lancing

West Sussex BN99 6DA

Telephone 0871 384 2508

Company Registration Number

00386561 (England)

Website

www.shiresincome.co.uk