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## Shires Smaller Companies plc

Interim Report and Accounts  
30 June 2008



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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 Smaller Companies 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.

## Highlights and Financial Calendar

	30 June 2008	31 December 2007	% change
Equity Shareholders' funds (£'000)	<b>36,251</b>	50,832	-28.7
Net asset value per share	<b>163.96p</b>	229.91p	-28.7
Share price (mid-market)	<b>147.50p</b>	185.50p	-20.5
Discount to net asset value <sup>A</sup>	<b>8.1%</b>	17.6%	
Dividend yield	<b>10.2%</b>	8.1%	

<sup>A</sup> Based on IFRS net asset value excluding dividend adjustment of 3.40p (31 December 2007 – 4.90p).

## Performance (total return)

	Six months ended 30 June 2008	1 year ended 30 June 2008	3 years ended 30 June 2008	5 years ended 30 June 2008
Share price	<b>- 16.5%</b>	- 44.4%	- 23.7%	+ 29.7%
Net asset value per share	<b>- 25.7%</b>	- 39.7%	- 15.7%	+ 33.9%
FTSE SmallCap Index (ex IC's)	<b>- 17.4%</b>	- 33.6%	- 6.5%	+ 33.1%
FTSE All-Share Index	<b>- 11.2%</b>	- 13.0%	+ 23.2%	+ 71.0%

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

## Financial Calendar

<b>August 2008</b>	Announcement of unaudited interim results for the six months ended 30 June 2008
<b>August 2008</b>	Half Yearly Report posted to shareholders
<b>31 October 2008</b>	Third interim dividend 2008 payable to shareholders
<b>30 January 2009</b>	Fourth interim dividend 2008 payable to shareholders
<b>February/March 2009</b>	Annual Report published and posted to shareholders

# Interim Board Report

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## Background

The six months to end June 2008 was an extremely difficult period for stockmarkets around the world. Equities were adversely affected by higher inflation arising from commodity prices, especially oil and the negative consequences for monetary policy. In the UK, the impact of the credit crunch spread out with the financial sectors to encompass other areas of the economy such as house building, construction and retailing. Due to the combination of weakening economic conditions and increasing inflation, the FTSE All-Share Index fell by 11.2% on a total return basis over the period. Nearly all sectors, led by Financials, declined over the half year with the only positive area being Resources, mainly made up of international mining and oil & gas companies (if the mining and oil & gas sectors are excluded, the fall in the FTSE All-Share Index was 18.1%). Fixed interest markets did not escape the negative investment conditions and in the six months to end June, UK gilts and UK corporate bonds returned -2.2% and -4.5% respectively. Only cash made a positive return of 2.6%.

Over the same period, the FTSE SmallCap Index (excl Investment companies) total return was -17.4% and was affected by similar concerns about the domestic economy. The FTSE SmallCap Index differs from the FTSE All-Share because only 3.7% of its constituents are in Resources compared to 33.6% of the FTSE All-Share Index. The difference accounts for much of the benchmark's underperformance compared to the FTSE All-Share Index. Smaller companies are also perceived as more vulnerable in an economic downturn and have been indiscriminately sold off by investors moving into cash and bonds. Shires Smaller Companies plc is principally invested in UK smaller companies and its interim results have been adversely affected by these trends.

## Investment Returns

The total return on net assets over the six month period was -25.7% compared to the benchmark return of -17.4%. The total return from the equity portfolio was -20.5% and lagged the benchmark because of its zero weighting in the Oil & Gas sector and stock specific reasons in the Support Services sector where the portfolio was overweight. The largest positive contributors to the performance over the period were National Accident Repair, Healthcare Locums and Titan Europe which has had an approach from their largest shareholder Titan Inc. This was, however, outweighed by negative contributions from Hat Pin, Western & Oriental and John Menzies. It should be noted however that over the longer term, stock selection has been good with the Company generating a total return of 33.9% for the 5 years

to end June 08, modestly ahead of its benchmark which made a total return of 33.1%.

In addition the cost of the Company's gearing also accounted for some of the underperformance, although it should be noted the gearing was invested in fixed interest securities which performed better relative to equities over the six months and contribute to the high levels of income paid out by the Company.

The total return to shareholders was -16.5%, still a negative outcome but better than the net asset value total return and ahead of the benchmark, reflecting the tightening of the Company's discount which narrowed to 8.1% compared to 17.6% at 31 December 2007.

## Earnings and Dividends

The Company pays an above average yield and I am pleased to report that the Company maintained its progressive dividend policy in the period. The first and second interim dividends paid by the Company in relation to the 2008 financial year amounted to 6.8p an increase of 1.5%, compared to the same period the previous year. The revenue return per share was 8.32p, compared to 10.21p in the previous year. As at end June 2008 there were revenue reserves of £1.82m, equal to 8.2p per share (excluding IFRS dividend adjustment).

## Gearing

At 30 June 2008 the total gearing of the Company was 75.1% compared to 67.1% at 31 December 2007. Total gearing rose mainly due to the decline in the net assets of the Company. However it should be emphasised that the gearing is still invested in fixed interest securities, predominantly of an investment grade nature, which are less volatile than equities and which continue to contribute a significant proportion of the Company's income. In addition equity gearing actually fell in the period from 107.8% to 96.1% as the Managers reduced the gearing in equities during turbulent markets. At the time of writing total gearing had fallen to 70%.

## Zero Coupon Finance

The Company employs gearing to enhance the yield and uses a combination of £20.4m of zero coupon finance ("ZCF") and a £10m long term loan. In December 2008, around £16m of the ZCF will mature and it is the Board's intention, as on previous occasions, to roll over into a new 5 year structure. Debt markets in general have become more expensive and have seen significant volatility in interest rates, including 5 year sterling interest rate swaps from which ZCF is priced. The Managers closely monitor pricing trends for ZCF and considered recent quotes to be expensive.

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Since the end of June, there has been some improvement in the pricing for shorter durations (longer dated ZCF remains more expensive) and consequently the Managers have rolled £5m or almost a third of the zero coupon liability for one year at 7.18% leaving a balance of approximately £11m to be refinanced before 19 December. Re-financing part of the liability now is also a sensible way of mitigating risk in more uncertain investment conditions and has the benefit of phasing future re-financings. In the second half of 2008, we believe it will be possible to re-finance the balance for a similar cost but over a longer duration. Following the transaction, the overall level of gearing remains unchanged.

### Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into four broad categories: (i) market risk, (ii) interest rate risk, (iii) credit risk and (iv) liquidity risk. Information on each of these areas is given in the Directors' Report within the Annual Report and Accounts for the year ended 31 December 2007.

### Directors' Responsibility Statement

The Directors are responsible for preparing this half-yearly financial report in accordance with applicable law and regulations. The Directors confirm that to the best of their knowledge:

- the condensed set of interim financial statements contained within the half yearly financial report have been prepared in accordance with the Accounting Standards Board's statement "Half-Yearly Financial Reports"; and,
- the Interim Board Report includes a fair review of the information required by 4.2.7R and 4.2.8R of the FSA's Disclosure and Transparency Rules.

The half yearly report includes a fair review of the information required on material transactions with related parties and changes since the Annual Report.

### Outlook

With inflationary pressures in the economy increasing, the Bank of England's Monetary Policy Committee is expected to keep interest rates at current levels for the foreseeable future in order to keep inflation under control. This should have the effect of slowing demand and growth in the domestic economy and hence may mean stockmarkets remain volatile in the upcoming months. The Board remains cautious about the outlook for the small cap market but with the Managers focus on strong balance sheets and cash flows, current valuations of small cap stocks offer a number of opportunities for the longer term investor.

With regards to the dividend, as the outlook for earnings deteriorates, the ability of some companies to grow or even maintain their dividends will be tested. Current revenue estimates still suggest that the dividend paid by your Company can be increased compared to last year (this should not be taken as a forecast of profits). However the Board will continue to keep this matter under close review and will only increase the dividend if it feels that the increase will be sustainable.

For and on behalf of the Board  
of Shires Smaller Companies plc

**H S Cathcart**  
Chairman  
15 August 2008

# Investment Portfolio

As at 30 June 2008

Company	Market value £'000	Total portfolio %
Chesnara	2,171	3.4
Hill & Smith	1,748	2.7
ATH Resources	1,661	2.6
Fisher James	1,635	2.6
John Menzies	1,628	2.6
Interserve	1,386	2.2
Nationwide Accident	1,240	2.0
Diploma	1,223	1.9
Midas Income & Growth	1,204	1.9
Highway Insurance Holdings	1,127	1.8
<b>Ten largest investments</b>	<b>15,023</b>	<b>23.7</b>
TT Electronics	1,113	1.7
Dawson Holdings	1,016	1.6
St. Ives	993	1.6
Chaucer Holdings	983	1.5
Healthcare Locums	945	1.5
Brit Insurance Holdings	937	1.5
XP Power	888	1.4
Titan Europe	886	1.4
St. James's Place	866	1.4
Zotefoams	860	1.3
<b>Twenty largest investments</b>	<b>24,510</b>	<b>38.6</b>
Low & Bonar	829	1.3
F&C Asset Management	825	1.3
Havelock Europa	737	1.2
Aberforth Geared Capital & Income	611	1.0
Lookers	608	1.0
Ennstone	596	0.9
Dawnay Day Carpathian	593	0.9
Marshalls	542	0.9
Sanderson Group	525	0.8
Holidaybreak	481	0.8
<b>Thirty largest investments</b>	<b>30,857</b>	<b>48.7</b>
Umeco	444	0.7
BPP Holdings	404	0.6
Mothercare	400	0.6
Western & Oriental	367	0.6
Luminar Group	365	0.6
Network International	337	0.5
Euromoney Inst Inv	335	0.5
McBride	318	0.5
Arden Partners	277	0.4
Powerleague	200	0.3
<b>Forty largest investments</b>	<b>34,304</b>	<b>54.0</b>
Hardy Underwriting	174	0.3
Abbey	170	0.3
Plant Impact	118	0.2
United Carpets	50	0.1
Hotel Corporation	32	–
Byotrol	1	–
<b>Total ordinary shares</b>	<b>34,849</b>	<b>54.9</b>

# Investment Portfolio – Other Investments

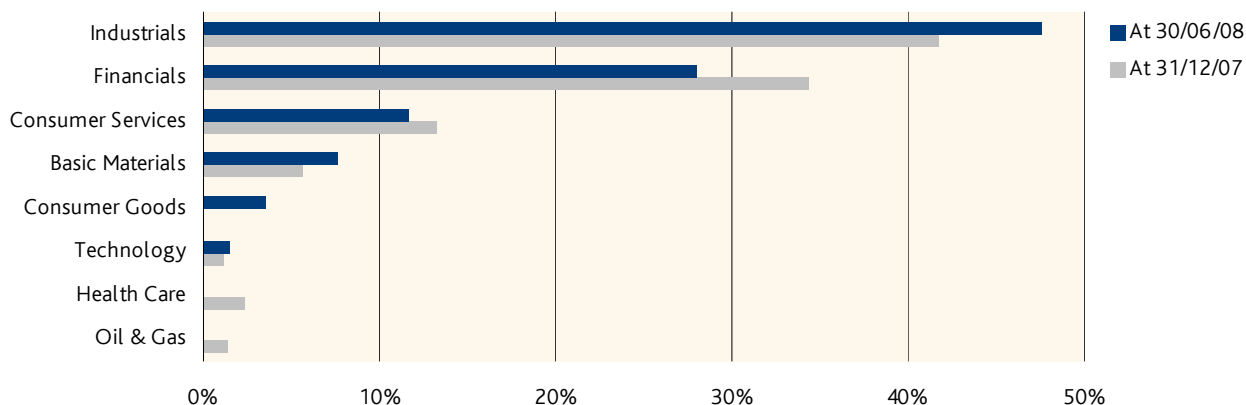
As at 30 June 2008

Company	Market value £'000	Total portfolio %
<b>Convertibles</b>		
Balfour Beatty Cum CNV 10.75%	1,270	2.0
<b>Total Convertibles</b>	<b>1,270</b>	<b>2.0</b>
<b>Corporate Bonds</b>		
Rexam 7.125% 2009	999	1.6
National Grid 5.375% 2009	983	1.5
National Westminster 7.625% 2010	945	1.5
Bank of Scotland 8.117% 2010 <sup>A</sup>	880	1.4
Marks & Spencer 5.875% 2012	880	1.4
Society of Lloyds 6.875% 2025	869	1.3
Daily Mail & General Trust 7.5% 2013	865	1.3
Lafarge 6.875% 2012 <sup>A</sup>	858	1.4
Slough Estates 6.25% 2015	812	1.3
Household Finance 6.125% 2010 <sup>A</sup>	812	1.3
Linde Finance 6.5% 2016	809	1.3
Northumbrian Water 6% 2017	809	1.3
Kelda 6.875% 2010 <sup>A</sup>	802	1.3
Land Securities 5.292% 2015 <sup>A</sup>	795	1.2
GE Capital UK Funding 6% 2013	774	1.2
Scottish Mutual 7.25% 2025 <sup>A</sup>	745	1.2
Bupa Finance 6.125% 2020	738	1.2
BAT International 6.375% 2019	701	1.1
Deutsche Telekom Intl 7.125% 2012	686	1.1
GKN 7% 2012 <sup>A</sup>	660	1.0
RWE Finance 4.625% 2010 <sup>A</sup>	601	0.9
Lambay Capital Securities 6.25% Float	596	0.9
Egg Banking 7.5% 2049	545	0.9
Lloyds TSB Bank 6.625% Perp	399	0.6
<b>Total Corporate Bonds</b>	<b>18,563</b>	<b>29.2</b>
<b>Preference shares</b>		
Aviva 8.75%	3,714	5.8
General Accident 8.875%	2,900	4.6
Brookwell	1,218	1.9
Ecclesiastical Insurance 8.625%	872	1.4
Bristol & West 8.125%	103	0.2
<b>Total Preference shares</b>	<b>8,807</b>	<b>13.9</b>
<b>Total Other Investments</b>	<b>28,640</b>	<b>45.1</b>
<b>Total Investments</b>	<b>63,489</b>	<b>100.0</b>

<sup>A</sup>All investments are listed on the London Stock Exchange (Sterling based), except those marked, which are listed on overseas exchanges based in sterling.

# Portfolio Analysis

## Analysis of Equity Portfolio



	Valuation at 31 December 2007		Movement during the period				Valuation at 30 June 2008	
	£'000	%	Purchases £'000	Sales £'000	Other <sup>A</sup> £'000	Gains/(losses) £'000	£'000	%
<b>Listed investments</b>								
Ordinary shares	54,792	107.8	4,607	(12,866)	–	(11,684)	34,849	96.1
Convertibles	1,410	2.8	–	–	–	(140)	1,270	3.5
Corporate Bonds	20,636	40.6	2,266	(2,917)	(40)	(1,382)	18,563	51.2
Other fixed interest	8,097	15.9	1,353	–	–	(643)	8,807	24.3
	84,935	167.1	8,226	(15,783)	(40)	(13,849)	63,489	175.1
Other non current assets	2,765	5.4					1,899	5.3
Current assets	6,370	12.5					4,354	12.0
Current liabilities	(25,863)	(50.9)					(16,956)	(46.8)
Non current liabilities	(17,375)	(34.1)					(16,535)	(45.6)
<b>Net assets</b>	<b>50,832</b>	<b>100.0</b>					<b>36,251</b>	<b>100.0</b>
<b>Net asset value per Ordinary share</b>	<b>229.91p</b>						<b>163.96p</b>	

<sup>A</sup> Represents amortisation costs on debt securities of £40,000.

## Consolidated Income Statement

	Six months ended 30 June 2008 (unaudited)			Six months ended 30 June 2007 (unaudited)			Year ended 31 December 2007 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on held-at-fair-value investments	–	(13,849)	(13,849)	–	525	525	–	(11,168)	(11,168)
Fair value movement in zero coupon finance derivatives	–	(388)	(388)	–	(238)	(238)	–	(1,119)	(1,119)
<b>Revenue</b>									
Dividend income	1,657	–	1,657	2,021	–	2,021	3,278	–	3,278
Interest income from investments	727	(40)	687	803	(59)	744	1,536	(102)	1,434
Deposit interest	16	–	16	3	–	3	6	–	6
(Losses)/gains of dealing subsidiary	(109)	–	(109)	11	–	11	(162)	–	(162)
	2,291	(14,277)	(11,986)	2,838	228	3,066	4,658	(12,389)	(7,731)
<b>Expenses</b>									
Investment management fees	(137)	(137)	(274)	(222)	(222)	(444)	(409)	(409)	(818)
Other administrative expenses	(142)	–	(142)	(121)	–	(121)	(281)	–	(281)
Finance costs of borrowing	(172)	(172)	(344)	(238)	(238)	(476)	(484)	(484)	(968)
<b>Profit/(loss) before taxation</b>	1,840	(14,586)	(12,746)	2,257	(232)	2,025	3,484	(13,282)	(9,798)
Tax expense	–	–	–	–	–	–	–	–	–
<b>Profit/(loss) attributable to equity holders of the Company</b>	<b>1,840</b>	<b>(14,586)</b>	<b>(12,746)</b>	<b>2,257</b>	<b>(232)</b>	<b>2,025</b>	<b>3,484</b>	<b>(13,282)</b>	<b>(9,798)</b>
<b>Earnings per Ordinary share (pence)</b>	<b>8.32</b>	<b>(65.97)</b>	<b>(57.65)</b>	<b>10.21</b>	<b>(1.05)</b>	<b>9.16</b>	<b>15.75</b>	<b>(60.07)</b>	<b>(44.32)</b>

The total column of this statement represents the Group's Income Statement, prepared in accordance with International Financial Reporting Standards ("IFRS"). The revenue return and capital return columns are supplementary to this and are both prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

# Consolidated Balance Sheet

	As at 30 June 2008 (unaudited) £'000	As at 30 June 2007 (unaudited) £'000	As at 31 December 2007 (audited) £'000
<b>Non-current assets</b>			
Ordinary shares	34,849	67,600	54,792
Convertibles	1,270	1,568	1,410
Corporate bonds	18,563	20,481	20,636
Other fixed interest	8,807	8,951	8,097
<b>Securities at fair value</b>	63,489	98,600	84,935
Zero coupon finance derivatives at fair value	1,899	7,576	2,765
	65,388	106,176	87,700
<b>Current assets</b>			
Trade and other receivables	32	2,901	–
Accrued income and prepayments	1,119	1,439	1,156
Investments of dealing subsidiary	–	628	455
Cash and cash equivalents	2,220	–	115
Zero coupon finance derivatives at fair value	983	–	4,644
<b>Total current assets</b>	4,354	4,968	6,370
<b>Total assets</b>	69,742	111,144	94,070
<b>Current liabilities</b>			
Trade and other payables	(227)	(3,306)	(281)
Short-term borrowings	–	(7,012)	(5,554)
Zero coupon finance derivatives at fair value	(16,729)	–	(20,028)
<b>Total current liabilities</b>	(16,956)	(10,318)	(25,863)
<b>Non-current liabilities</b>			
Long-term loan	(10,000)	(10,000)	(10,000)
Zero coupon finance derivatives at fair value	(6,535)	(26,688)	(7,375)
<b>Total liabilities</b>	(33,491)	(47,006)	(43,238)
<b>Net assets</b>	<b>36,251</b>	<b>64,138</b>	<b>50,832</b>
<b>Issued capital and reserves attributable to equity holders of the parent</b>			
Called-up share capital	11,055	11,055	11,055
Share premium account	11,892	11,892	11,892
Capital redemption reserve	2,032	2,032	2,032
Retained earnings:			
Realised capital reserve	8,696	36,332	23,282
Revenue reserve	2,576	2,827	2,571
	<b>36,251</b>	<b>64,138</b>	<b>50,832</b>
<b>Net asset value per Ordinary share (pence)</b>	<b>163.96</b>	<b>290.09</b>	<b>229.91</b>

# Consolidated Statement of Changes in Equity

## Six months ended 30 June 2008 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 December 2007	11,055	11,892	2,032	23,282	2,571	50,832	
Capital losses for the period	–	–	–	(14,586)	–	(14,586)	
Revenue profits for the period	–	–	–	–	1,840	1,840	
Equity dividends	–	–	–	–	(1,835)	(1,835)	
<b>Balance at 30 June 2008</b>	<b>11,055</b>	<b>11,892</b>	<b>2,032</b>	<b>8,696</b>	<b>2,576</b>	<b>36,251</b>	

## Six months ended 30 June 2007 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 December 2006	11,055	11,892	2,032	21,090	15,474	2,361	63,904
Reclassification of reserves <sup>A</sup>	–	–	–	15,474	(15,474)	–	–
Capital losses for the period	–	–	–	(232)	–	–	(232)
Revenue profits for the period	–	–	–	–	–	2,257	2,257
Equity dividends	–	–	–	–	–	(1,791)	(1,791)
<b>Balance at 30 June 2007</b>	<b>11,055</b>	<b>11,892</b>	<b>2,032</b>	<b>36,332</b>	<b>–</b>	<b>2,827</b>	<b>64,138</b>

## Year ended 31 December 2007 (audited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance at 31 December 2006	11,055	11,892	2,032	21,090	15,474	2,361	63,904
Reclassification of reserves <sup>A</sup>	–	–	–	15,474	(15,474)	–	–
Capital losses for the year	–	–	–	(13,282)	–	–	(13,282)
Revenue profits for the year	–	–	–	–	–	3,484	3,484
Equity dividends	–	–	–	–	–	(3,274)	(3,274)
<b>Balance at 31 December 2007</b>	<b>11,055</b>	<b>11,892</b>	<b>2,032</b>	<b>23,282</b>	<b>–</b>	<b>2,571</b>	<b>50,832</b>

<sup>A</sup> With effect from 1 January 2007, changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, at the Balance Sheet date are included in realised, rather than unrealised, capital reserves. The balances on both reserves at 1 January 2007 have been amended by a reserve transfer to reflect this change.

# Consolidated Cash Flow Statement

	Six months ended 30 June 2008 (unaudited) £'000	Six months ended 30 June 2007 (unaudited) £'000	Year ended 31 December 2007 (audited) £'000
<b>Cash flows from operating activities</b>			
Investment income received	2,410	2,785	5,052
Deposit interest received	6	3	6
Investment management fees paid	(144)	(432)	(864)
Dealing subsidiary receipts	348	–	–
Other cash expenses	(334)	(152)	(299)
<b>Cash generated from operations</b>	<b>2,286</b>	<b>2,204</b>	<b>3,895</b>
Interest paid	(341)	(475)	(966)
<b>Net cash inflows from operating activities</b>	<b>1,945</b>	<b>1,729</b>	<b>2,929</b>
<b>Cash flows from investing activities</b>			
Purchases of investments	(8,226)	(24,277)	(32,004)
Sales of investments	15,775	24,249	33,740
Special dividends	–	–	90
<b>Net cash inflow/(outflow) from investing activities</b>	<b>7,549</b>	<b>(28)</b>	<b>1,826</b>
<b>Cash flows from financing activities</b>			
Equity dividends paid	(1,835)	(1,791)	(3,272)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>7,659</b>	<b>(90)</b>	<b>1,483</b>
Cash and cash equivalents at the start of the period	(5,439)	(6,922)	(6,922)
<b>Cash and cash equivalents at the end of the period</b>	<b>2,220</b>	<b>(7,012)</b>	<b>(5,439)</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents	2,220	–	115
Short term borrowings	–	(7,012)	(5,554)
	<b>2,220</b>	<b>(7,012)</b>	<b>(5,439)</b>

# Notes to the Accounts

## 1. Accounting policies

### (a) Basis of accounting

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') 34 – 'Interim Financial Reporting', as adopted by the International Accounting Standards Board ('IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB. They have also been prepared using the same accounting policies applied for the year ended 31 December 2007 financial statements, which received an unqualified audit report.

### (b) Dividends payable

Dividends are recognised in the period in which they are paid.

2. The following table shows the revenue for each period less the dividends declared in respect of the financial period to which they relate.

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Revenue	1,840	2,257	3,484
Dividends declared	(1,503) <sup>A</sup>	(1,481) <sup>B</sup>	(3,305) <sup>C</sup>
	<b>337</b>	<b>776</b>	<b>179</b>

<sup>A</sup> Dividends declared relate to first two interim dividends (both 3.40p each) declared in respect of the financial year 2008.

<sup>B</sup> Dividends declared relate to first two interim dividends (both 3.35p each) declared in respect of the financial year 2007.

<sup>C</sup> Dividends declared relate to the four interim dividends declared in respect of the financial year 2007 totalling 14.95p.

3. (Losses)/earnings and net asset value per share	Six months ended 30 June 2008 p	Six months ended 30 June 2007 p	Year ended 31 December 2007 p
Revenue return	8.32	10.21	15.75
Capital return	(65.97)	(1.05)	(60.07)
Total return	<b>(57.65)</b>	<b>9.16</b>	<b>(44.32)</b>

The figures above are based on the following attributable assets:

	£'000	£'000	£'000
Revenue return	1,840	2,257	3,484
Capital return	(14,586)	(232)	(13,282)
Total return	<b>(12,746)</b>	<b>2,025</b>	<b>(9,798)</b>
<b>Weighted average number of Ordinary shares in issue</b>	<b>22,109,765</b>	<b>22,109,765</b>	<b>22,109,765</b>

The net asset value per share is based on net assets attributable to Shareholders of £36,251,000 (30 June 2007 – £64,138,000; 31 December 2007 – £50,832,000) and on 22,109,765 Ordinary shares in issue at each period end.

## Notes to the Accounts continued

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### 4. Transaction costs

During the period 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 (losses)/gains on held-at-fair-value investments in the Consolidated Income Statement. The total costs were as follows:

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Purchases	28	52	58
Sales	16	58	73
	<b>44</b>	<b>110</b>	<b>131</b>

### 5. Publication of non-statutory accounts

The financial information contained in this Interim Report does not constitute statutory accounts as defined in Sections 434-436 of the Companies Act 2006. The financial information for the six months ended 30 June 2008 and 30 June 2007 has not been audited.

The information for the year ended 31 December 2007 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 237 (2) or (3) of the Companies Act 1985.

# How to Invest in Shires Smaller Companies plc

## Direct

Investors can buy and sell shares in Shires Smaller Companies plc (the "Company") 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 (AAM) runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. 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 AAM 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

AAM runs a Share Plan (the "Plan") through which shares in the Company 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 AAM 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 £7,200 in the Company can be made in the tax year 2008/2009.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can 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 six monthly and deducted from income. Under current legislation, investments in ISAs can grow free of capital gains tax.

## ISA Transfer

You can choose to transfer the management of previous tax year investments to AAM for investment in the Company while retaining your ISA wrapper. The minimum lump sum transfer is £1,000, 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.

## Keeping You Informed

For internet users, detailed data on the Company, including price, performance information and a monthly fact sheet is available from the Trust's website ([www.shiresmallercompanies.co.uk](http://www.shiresmallercompanies.co.uk)) and the TrustNet website ([www.trustnet.co.uk](http://www.trustnet.co.uk)). You can also call 0500 00 00 40 for information.

## Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact:

Telephone: 0500 00 40 00  
Email: [aam@lit-request.com](mailto:aam@lit-request.com)

For information on the Investment Plan for Children, Share Plan, ISA or ISA Transfer please contact:

Aberdeen Investment Trust Administration  
Block C, Western House  
Lynchwood Business Park  
Peterborough, PE2 6BP  
Telephone: 0500 00 00 40

The information above is issued and has been approved for the purposes of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited, One Bow Churchyard, Cheapside, London EC4M 9HH which is authorised and regulated by the Financial Services Authority.

# Corporate Information

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## **Managers**

Aberdeen Asset Managers Limited  
40 Princes Street  
Edinburgh  
EH2 2BY

## **Secretaries and Registered Office**

Aberdeen Asset Management PLC  
40 Princes Street  
Edinburgh  
EH2 2BY

## **Auditors**

KPMG Audit Plc

## **Solicitors**

Maclay Murray & Spens LLP

## **Bankers**

Royal Bank of Scotland plc  
HSBC Bank Plc

## **Registrars and Transfer Office**

Equiniti Limited (formerly Lloyds TSB Registrars)  
PO Box 28448  
Finance House  
Orchard Brae  
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Telephone 0871 384 2030

## **Company Registration Number**

137448 (Scotland)







