

Shires Smaller Companies plc



Investment objective

To provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of small companies and UK fixed income securities.

Benchmark

FTSE SmallCap Index (ex Investment Companies) total return.

Cumulative performance (%)

| | as at 31/07/10 | 1 month | 3 months | 6 months | 1 year | 3 years | 5 years |
|---------------------|----------------|---------|----------|----------|--------|---------|---------|
| Share Price | 111.5p | 11.5 | 8.3 | 20.5 | 45.8 | (39.5) | (27.4) |
| NAV ^A | 127.2p | 5.9 | 1.0 | 12.4 | 48.7 | (40.4) | (22.5) |
| FTSE SmallCap ex IC | | 3.3 | (6.3) | (3.3) | 15.6 | (33.6) | (11.1) |

Discrete performance (%)

| Year ending: | 31/07/10 | 31/07/09 | 31/07/08 | 31/07/07 | 31/07/06 |
|---------------------|----------|----------|----------|----------|----------|
| Share Price | 45.8 | (18.1) | (49.3) | 13.6 | 5.6 |
| NAV ^A | 48.7 | (26.4) | (45.6) | 16.2 | 11.9 |
| FTSE SmallCap ex IC | 15.6 | (11.0) | (35.5) | 18.7 | 12.8 |

Total return, NAV to NAV net income reinvested. GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at par. Source: Aberdeen Asset Managers Limited, Factset and Morningstar.

^A Excluding current year revenue.

Past performance is not a guide to future performance. The value of shares may go down as well as up and an investor may not get back the amount invested.

Fund managers' report

Equity markets had a strong bounce in July on the back of a positive earnings season and a pick up in appetite for risk. Smaller companies performed well over month with a total return of 3.3% although this was some way behind the 7.1% rebound in the FTSE 100 Index. At a sector level Banks were buoyed by a positive outcome in the EU stress tests, and significantly enhanced profitability as bad debt provisions tailed off. The two other heavyweight sectors, Oil & Gas Producers and Mining were also strong which further drove the relative outperformance.

Domestic economic data through July was mixed. The positive surprise was second quarter GDP which rose 1.1% quarter-on-quarter. This was well ahead of the consensus view of 0.6% and despite the noises that this could be revised down this should still be viewed as a positive result. CPI inflation fell to 3.2%, from 3.4%, and despite this being above target the Bank of England MPC voted 7-1 to keep interest rates on hold at 0.5%. The housing market remained soft as new mortgage approvals slipped to 47,600 and house prices dropped 0.6%, month-on-month.

We trimmed a couple of the larger equity positions during the month, namely James Fisher and Sons and Brit Insurance. The Apollo Alternative Assets bid for Brit Insurance remains ongoing, but we saw the strong bounce in the share price as an opportunity to take some profits. Household and personal care provider McBride was weak on the back of a negative outlook statement in June. After a meeting with management we felt the share price reaction was overdone and backed by a solid balance sheet and dividend yield we topped up our holding. Other notable trades were the reduction of Aviva 8.75%, and General Accident 8.875% preferences shares.

Fund managers' report continues overleaf

The risks outlined overleaf relating to gearing, smaller companies and single country market exposure are particularly relevant to this trust but should be read in conjunction with all warnings and comments given.

Ten largest equity holdings

| | % |
|------------------------------------|-------------|
| XP Power | 4.4 |
| BSS | 3.5 |
| Weir | 3.3 |
| Chesnara | 3.0 |
| Chaucer | 2.6 |
| Helical Bar | 2.6 |
| Oxford Instruments | 2.5 |
| Wilmington | 2.5 |
| Brit Insurance | 2.4 |
| Morgan Sindall | 2.3 |
| Total | 29.1 |
| Total number of investments | 59 |

Ten largest fixed income holdings

| | % |
|--|-------------|
| Balfour Beatty Cum Cnv 10.75% | 3.6 |
| Aviva 8.75% | 3.0 |
| General Accident 8.875% | 3.0 |
| Society of Lloyds 6.875% 17/11/25 | 2.9 |
| Northumbrian Water Finance 6% 11/10/17 | 2.9 |
| BUPA Finance 6.125% 16/09/20 | 2.4 |
| National Westminster 7.625% 21/01/49 | 2.2 |
| Telecom Italia 5.625% 29/12/15 | 2.0 |
| Ecclesiastical Insurance Non Cum | 2.0 |
| Land Securities Capital Mkts 4.625% 03/02/13 | 1.6 |
| Total | 25.6 |

Sector allocation

| | % |
|-------------------|--------------|
| Industrials | 44.0 |
| Consumer Services | 20.3 |
| Financials | 17.7 |
| Consumer Goods | 6.7 |
| Basic Materials | 4.8 |
| Technology | 4.0 |
| Health Care | 2.5 |
| Total | 100.0 |

Figures may not add up to 100 due to rounding.

Further information

Private investors **0500 00 00 40**
 Institutional investors **Kenneth Harper**
+44 (0)131 528 4000
 Website **www.shiresmallercompanies.co.uk**

Receive the factsheet of your choice by email as soon as they are available by registering at www.investments.co.uk/ITemail

All sources (unless indicated): Aberdeen Asset Managers Limited 31 July 2010.

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Fund managers' report – continued

As announced previously it was the Board's intention to redeem the Zero Coupon Financing at maturity in July. This transaction has now been completed with the Board putting in place a three year revolving credit facility. This term loan provides the Company with a stable funding platform at an attractive rate of interest.

Despite a decent earnings season there remains a considerable amount of uncertainty surrounding the second half of the year. In recent company meetings management have tried to reign in our expectations of extrapolating similar trends for the remainder of the year. They still have limited visibility and we are also yet to see the full effects of the austerity package on unemployment and consumption. With this in mind we continue to focus on the balance sheet and cash flow to give management the flexibility to deal with a more prolonged period of weakness.

Key information

| | | |
|---|-------------------------------|--------|
| Calendar | | |
| Year end | 31 December | |
| Accounts published | March | |
| Dividend paid | January, April, July, October | |
| AGM | April | |
| Established | 1992 | |
| Fund managers | | |
| Susan Anderson Phil Webster | | |
| Total expense ratio | | |
| 2.2% | | |
| Annual management fee^B | | |
| 0.75% | | |
| ^B 0.75% per annum of the value of the Company's gross assets. | | |
| Premium/(Discount) | | |
| (12.4)% | | |
| Yield (Historic) | | |
| 5.8% | | |
| Gearing | | |
| Equities ^C | (5.3)% | |
| Total ^D | 30.0% | |
| Assets | | |
| | £'000 | % |
| Equities | 26,762 | 94.7 |
| Convertibles | 1,179 | 4.2 |
| Fixed income | 8,770 | 31.1 |
| Total investments | 36,711 | 130.0 |
| Other assets/(liabilities) | 1,530 | 5.4 |
| Debt | (10,000) | (35.4) |
| Net assets | 28,241 | 100.0 |
| ^C Expressed as a percentage of total equities held divided by shareholders' funds. | | |
| ^D Expressed as a percentage of total investments divided by shareholders' funds. | | |
| Capital structure | | |
| Ordinary shares | 22,109,765 | |
| Allocation of expenses and interest | | |
| Capital | 50% | |
| Revenue | 50% | |
| Trading details | | |
| Bloomberg/Epic/Reuters code | SHD | |
| Market makers | CANA, CAZR, WINS | |

Important information

Risk factors you should consider prior to investing:

- In common with most investment companies, investment trusts may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that a relatively small movement, down or up, in the value of a trust's assets will result in a magnified movement, in the same direction, of that NAV.
- In order to maintain the high level of dividend paid by the Trust some of the assets selected for the underlying portfolio may be liable to diminish in capital value over time.
- The value of shares and the income from them can go down as well as up and you may get back less than the amount invested.
- Past performance is not a guide to the future.
- Exposure to a single country market increases potential volatility.
- There is no guarantee that the market price of shares in the Trust will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of investment trust shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread.
- High income investments, in order to meet their income objectives, may charge expenses to capital which in turn may erode the capital value of the investment to less than the amount invested.
- Funds that invest in the securities of smaller companies are likely to carry a higher degree of risk than most funds.
- In certain circumstances, the Manager may enter into derivatives transactions in order to manage risk in the portfolio and generate income.
- The market in these instruments can be highly volatile and there is a high risk of loss.
- Derivatives may only be used subject to the restrictions set out for the Trust.

Other Important Information:

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