

Shires Smaller Companies plc



ANNUAL REPORT 2002

MANAGED BY

GLASGOW
INVESTMENT MANAGERS

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Company Profile

Objective

The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Benchmark

FTSE SmallCap Index – excluding Investment Companies (Total Return).

Capital structure

Ordinary shares in issue	21,886,538
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9% Loan repayable at par in 2005	£10,000,000
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Additional gearing is provided by medium-term funding in the form of zero coupon finance (see note 16).

Dividends

Dividends on the ordinary shares are payable quarterly at the end of March, June, September and December.

Continuation Vote

The Company's Articles of Association require that an ordinary resolution is proposed at the eighth and then every fifth Annual General Meeting to allow the Company to continue as an investment trust for a further five year period. The present five year mandate expires at the Annual General Meeting due to be held in March 2005.

Management Company and Fee

The Company is managed by Glasgow Investment Managers Limited. The management contract is subject to one year's notice. The fee is at the rate of 0.75% of shareholders' funds plus medium and long-term funding.

PEPs and ISAs

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

AITC

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

Financial Information

Highlights

	As at 31 December 2002	As at 31 December 2001	% change
Total assets less current liabilities	£56.49m	£67.51m	-16.3
Shareholders' funds	£32.31m	£44.29m	-27.1
Market capitalisation	£30.53m	£43.01m	-29.0
Net asset value per share	147.6p	202.4p	-27.1
Ordinary share price	139.5p	196.5p	-29.0
Discount (share price to net asset value)	5.5%	2.9%	-
Revenue return per share	13.77p	13.52p	+1.8
Dividends per share	13.75p	13.75p	-
Total expense ratio	2.57%	1.94%	-
Gearing	84.7%	67.1%	-

Performance

	1 year %	3 years %	5 years £
Shires Smaller Companies plc			
– Net asset value	-20.3▲	-28.7●	-1.6●
– Share price	-22.0▲	+0.5●	+17.0●
FTSE SmallCap Index (excluding Investment Companies)‡	-27.8	-34.7	-9.6
FTSE All-Share Index‡	-22.7	-36.9	-10.9

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

	As at 31 December 2002	As at 31 December 2001
Net dividend yield		
Shires Smaller Companies plc▲	9.9%*	7.0%
FTSE SmallCap Index (excluding Investment Companies)‡	3.5%	2.7%
FTSE All-Share Index‡	3.6%	2.6%

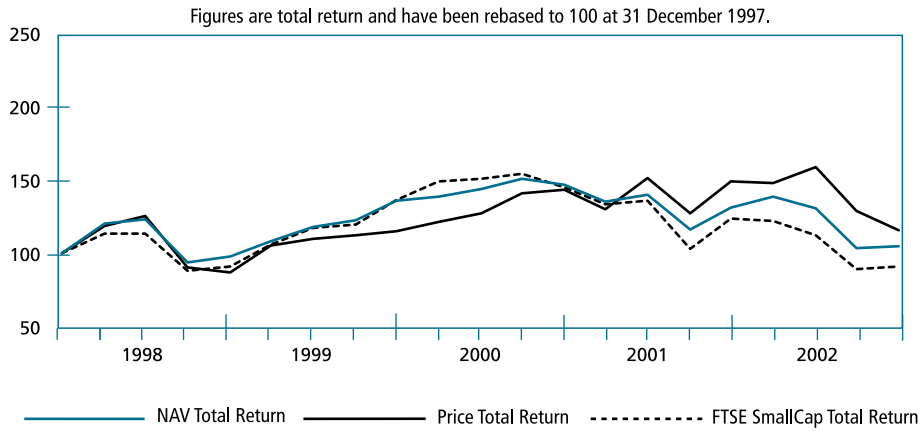
▲ Source: Glasgow Investment Managers Limited.

‡ Source: Datastream.

● Source: Fundamental Data for the Association of Investment Trust Companies.

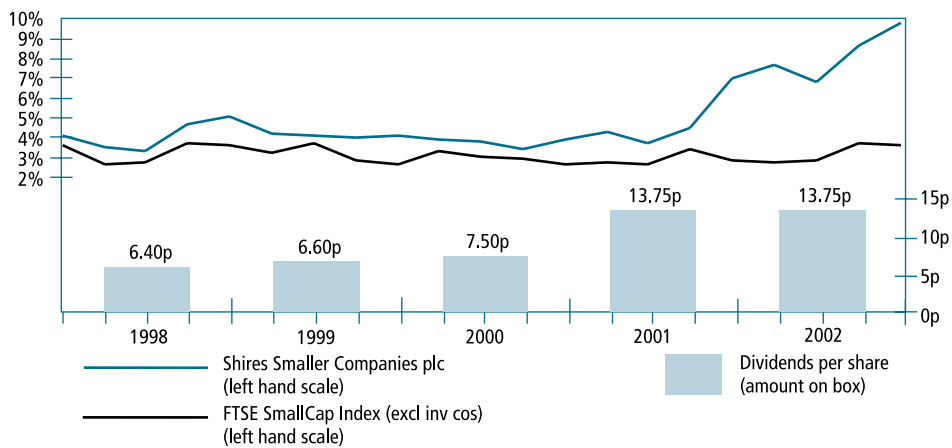
* Based on share price and proposed total dividend for the year ended 31 December 2002.

Absolute Performance



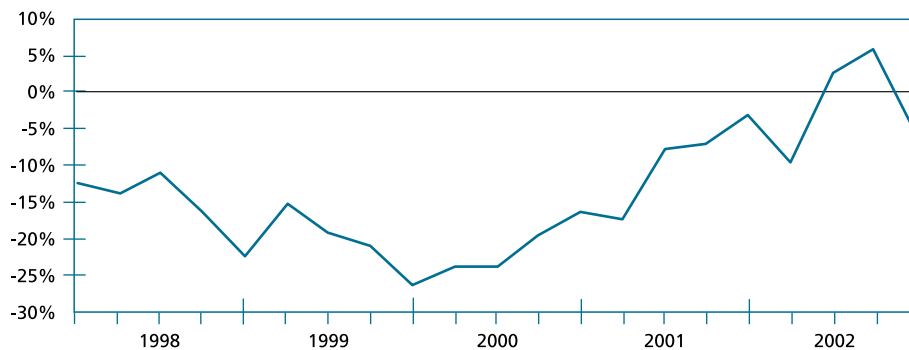
Data supplied by Fundamental Data for the Association of Investment Trust Companies.

Net Dividend Yield



Data supplied by Glasgow Investment Managers Limited and Datastream.

Premium/(Discount)



Data supplied by Fundamental Data for the Association of Investment Trust Companies.

Chairman's Statement



John Stubbs

Background

The ordinary share prices of UK companies fell for the third consecutive year in 2002. The last time this happened was in the years 1947 to 1949, in the straitened aftermath of the Second World War. Although aggregate output grew at a faster rate in the Western economies in 2002 than in 2001, stockmarkets were more influenced by the potential impact on confidence – and thus future levels of activity – of terrorism, accounting and corporate miscreance and, increasingly at the end of 2002, the Iraq crisis, than by current economic data.

Investment Performance

Against the background of a declining stockmarket, the Company performed relatively well. The total return on net assets was –20.3%, better than the return of –22.7% on the FTSE All-Share Index and substantially better than the return of –27.8% on the FTSE SmallCap Index (excluding Investment Companies), the Company's performance benchmark.

The portfolio of ordinary shares performed significantly better than these figures indicate, returning –15.8%, but being geared in a falling stockmarket depressed the overall result.

The return to a shareholder was –22.0%, lower than the return on net assets due to a rise, from 2.9% to 5.5% over the year, in the discount at which the share price stands to net asset value.

Earnings and Dividends

The revenue return per share was 13.77p. The Board is recommending a final dividend of 4.75p per share, to bring total dividends for the year to 13.75p, the same level as last year. If approved, the final dividend will be paid on 31 March 2003 to shareholders on the register at close of business on 7 March 2003.

Portfolio Profile

Ordinary shares were equivalent to 101.2% of net assets at 31 December 2002, compared with the 105.1% reported last year. This reduction reflected falls in the prices of ordinary shares held in the portfolio and net sales of £5.6 million of equities to control gearing as the value of net assets fell.

Total gearing rose over the year from 67.1% to 84.7% of net assets, largely because the aggregate exposure to fixed income securities rose from 62.0% to 83.5%. These investments were retained in order to continue to meet the Company's income objective.

Longer Term Strategy

The year to 31 December 2002 was the second full year of the investment strategy embarked on in August 2000. The higher level of dividend distributions has been maintained and the share price rating has moved in a range between a discount of 9.0% at the end of March and a premium of 10.0% at the end of August. This represents a sustained improvement relative to the five year period from 1996 to 2000 when the discount averaged over 20%.

Chairman's Statement

(Continued)

Outlook

Although consensus forecasts continue to indicate that the current gradual recovery in output will persist, stockmarkets are preoccupied with the prospect of war in the Middle East and its possible adverse impact on business activity if oil prices rise and consumer confidence falls. In such circumstances of uncertainty, the ordinary shares of many companies are on low ratings, a fact that investors may only appreciate after sentiment has improved and share prices have risen.

Board

Christopher Arander, a founder Director of the Company at its launch in 1992, and John Izat, a consultant to the Company since its inception and a Director since 1996, both attained the age of seventy in the course of 2002. In accordance with the provisions of the Articles of Association, therefore, they will retire from the Board after the Annual General Meeting on 21 March 2003. I should like to take this opportunity to thank Christopher and John for their contributions to the Company over the last ten years and to wish them both well in retirement.

I should like to extend a warm welcome to Mr James West, a non-executive director of Candover Investments and other companies, who joined the Board in April last year.



John Stubbs
Chairman

Investment Managers' Review

Background

For the third consecutive year, UK Equities produced a negative total return. The FTSE All-Share Index returned -22.7% and, within the size categories, smaller companies (excluding Investment Companies) recorded the worst return, -27.8%. Fixed interest securities, as measured by the FTSE Actuaries Government Securities All Stocks Index, produced a return of 9.3%.

Once again the UK economy displayed a “two-tier” pattern, the manufacturing sector was negatively impacted by weak global economic activity and the strength of Sterling, while consumer spending remained buoyant, reflecting low unemployment, low interest rates, and rising house prices. The strength of personal consumption, with house price inflation over 25%, led the Monetary Policy Committee (MPC) to take a cautious stance on bank base rates which remained at 4% throughout the year.

Equities

During the year, exposure to Cyclical Services was increased and Basic Industries reduced. Several holdings were subject to takeover including Dixon Motors, Clydeport Authority, William Baird and T&S Stores. Equity exposure was reduced from 105.1% of net assets to 101.2% at the year end.

Several new investments were added to the portfolio, including:

McCarthy & Stone

The company is the UK's leading developer of retirement homes, a segment of the housing market with positive demographic trends. Recent results were encouraging, the balance sheet is solid and shareholders have benefited from strong dividend growth.

FKI

Conglomerate engineering company with interests in material handling, lifting products and hardware, the majority of profits emanate from the USA. Benefits will be gained from recent rationalisation measures.

Belhaven Group

Has a niche position in the Scottish brewing and retailing businesses and has had exceptional profit growth since coming to the market. Their flagship brand, Belhaven Best, is now the most popular ale in Scotland.

Mears Group

The Group's principal activities are the provision of maintenance, electrical and mechanical services and the distribution of motor vehicles to a wide range of clients in the public and private sectors.

Britannic

One of the smaller UK life assurance companies undertook a restructuring of the business into four distinct areas. It became clear that scale is a necessity to compete in the insurance market and the company is making efforts to find a buyer for the business.

Arriva

The largest London Bus operator and should be a major beneficiary of the proposed congestion charging scheme. It is also expected to see UK Rail earnings upgraded due to franchise extensions.

Some holdings were increased:

British Vita

Despite a tough trading environment, British Vita's operational efficiency improvements are continuing to deliver profits growth. Shareholder returns will be further enhanced by the company's active share buyback programme.



The Belhaven Brewery Group Plc's flagship brand Belhaven Best is the most popular ale in Scotland's pub trade.

Investment Managers' Review

(Continued)

Zotefoams

While its foam markets remain difficult, strong cash generation continues to be a feature of Zotefoams' financial performance. Management have indicated that the high dividend payout will continue, even if not covered by earnings, as long as cash generation remains resilient.

Homestyle

The core business continued to deliver strong sales growth, in addition to the strong sales uplifts enjoyed from the Harveys refits. The shares looked cheap on a Price to Earnings ratio and offered a 7% yield.

Thistle Hotels

After a sale and lease back of some of its hotels, Thistle has a significant cash balance which will either be used to expand the Group or returned to shareholders. The shares are also attractive on takeover grounds and for these reasons the holding was increased.

Scottish Radio Holdings

With conditions in the company's radio and newspaper markets expected to improve this year, the company is well positioned to participate in the expected consolidation of the media sector, following the introduction into law of a new Communications Bill in 2003.



Dawson delivers over 1 billion copies to 12,000 UK newsagents, 362 days a year.

Dawson Holdings

The group's principal activities are the distribution of newspapers, magazines and books. We added to our holding when it became clear that national newspapers were increasing their cover prices and magazines were experiencing stronger sales.

Some holdings were sold, these include:

Holidaybreak

The company has made excellent progress over the last three years through a combination of well timed acquisitions and organic growth. The shares were re-rated by the stockmarket due to their

improved performance and started to appear fully valued compared to the peer group.

Freeport

Obtaining all the requisite planning permissions for the company's European developments has proved difficult and slower trading at some of the UK retail sites is expected to undermine asset valuations.

CLS Holdings

Prospects for property rental growth in the UK have been deteriorating, undermining valuation forecasts.

Universal Salvage

After a strong share price performance, the holding was sold as the valuation fully discounted further prospects.

Some holdings were reduced:

Pendragon

After a strong share price performance, on the back of a very buoyant car market, some profits were taken.

Aggregate Industries

The investment in Aggregate Industries was reduced due to deteriorating trading conditions in the US construction sector, especially in the road building programmes. The company's UK aggregate businesses continue to perform well and are benefiting from Government spending.

Investment Managers' Review

(Continued)

Nestor Healthcare

The loss of a major healthcare screening contract was a major blow to the company, particularly after it became clear just how profitable it had been. This posed serious questions about management credibility.

Convertible Preference Shares

Convertibles outperformed equities over the period but underperformed conventional fixed interest. The holding in Kunick was subject to a management buy-out and a new holding in Bellway 9.5% was acquired. At the end of the year, convertible exposure represented 11.1% of net assets compared with 8.1% last year.

Preference Shares

A number of small holdings in preference shares were purchased, these holdings will produce above average income for the fund. The holding in Advanced Value was bought in by the company.

Corporate Bonds

The strategy within the corporate bond portfolio was directed at taking a more defensive stance. Exposure to the Utilities sector was increased with new holdings in Anglian Water 7.882% 2037, Energy 7% 2011 and BG Transco 5.375% 2009 purchased. The holdings in Canadagula Brands 8.5% 2009, Royal KPN 8.25% 2008 and American Standards 8.25% 2009 were sold to finance these purchases. Other new purchases included insurance company Scottish Mutual 7.25% and European plasterboard producer Lafarge 6.875% 2012.

As mentioned in the Interim Report, the default of the Energis 9.125% 2005/10 had a substantial negative impact on the value of the bond portfolio. Over the year, corporate bond exposure rose from 53.8% of net assets to 69.8%.

Strategy

Prospects for 2003 could prove to be positive for the smaller companies sector. The downturn in aggregate demand has forced companies to take aggressive measures to improve cash-flow and strengthen balance sheets. Operating costs have been reduced, capital expenditure has been cut and take-over activity restricted. This has put companies on a better financial footing and made them more operationally geared to benefit from an upturn in demand. In the short-term, the outlook for global economic activity appears uninspiring, but domestic activity should benefit from looser fiscal and monetary policies. The MPC has further scope to reduce bank base rates as house price inflation begins to ease. Smaller company ratings have fallen to a level that offers the prospect of significant upside potential as a recovery in profits begins to develop. Investment strategy is directed towards maintaining a high exposure to companies with mainly domestic earnings.



mt Pembroke Fisher – modern double-hulled tanker operated by James Fisher and Sons.

Investment Managers' Review

(Continued)

Distribution of Assets

	Valuation at 31 December 2001		Movements during the year			Valuation at 31 December 2002	
	£000	%	Purchases £000	Sales £000	Appreciation £000	£000	%
Ordinary shares	46,549	105.1	13,978	19,546	(8,275)	32,706	101.2
Convertibles	3,592	8.1	2,477	2,569	77	3,577	11.1
Corporate bonds	23,794	53.8	8,720	8,468	(1,499)	22,547	69.8
Other fixed interest	83	0.1	9,225	8,026	(451)	831	2.6
	74,018	167.1	<u>34,400</u>	<u>38,609</u>	<u>(10,148)</u>	59,661	184.7
Net current liabilities	<u>(6,504)</u>	<u>(14.7)</u>				<u>(3,170)</u>	<u>(9.8)</u>
TOTAL ASSETS (less current liabilities)	67,514	152.4				56,491	174.9
Long-term loan	(9,978)	(22.5)				(9,984)	(30.9)
Zero coupon finance	<u>(13,244)</u>	<u>(29.9)</u>				<u>(14,199)</u>	<u>(44.0)</u>
NET ASSETS	<u>44,292</u>	<u>100.0</u>				<u>32,308</u>	<u>100.0</u>
Net asset value per share	202.4p					147.6p	

Historical Record

History

Year ended 31 December	Total assets less current liabilities £m	Shareholders' funds £m	Net asset value per share		Share price p	Dividends per share p	Total expense ratio %	Discount %
			Undiluted p	Fully diluted p				
1992*	14.0	14.0	111.5	109.6	105.0	2.20	1.45	4.0
1993	19.5	19.5	155.6	146.3	146.0	5.05	1.21	0.2
1994	28.0	28.0	144.7	137.3	131.0	5.40	1.14	4.6
1995	40.0	30.0	154.9	145.8	136.0	5.70	1.30	6.7
1996	44.0	34.0	176.2	163.9	133.5	6.00	1.48	18.5
1997	47.0	37.0	190.0	176.8	154.5	6.20	1.55	12.6
1998	44.8	34.8	177.5	166.9	128.0	6.40	1.79	23.3
1999	57.8	47.8	243.3	228.7	166.0	6.60	1.28	27.4
2000	74.9	52.5	240.1	240.1	200.0	7.50	1.42	16.7
2001	67.5	44.3	202.4	202.4	196.5	13.75	1.94	2.9
2002	56.5	32.3	147.6	147.6	139.5	13.75	2.57	5.5

* Period from 28 August 1992 (date of launch).

Data supplied by Glasgow Investment Managers Limited.

Performance

	(FTSE SmallCap Index)					
	NAV (fully diluted)	NAV total return*	Share price performance	Share price total return*	Benchmark performance	Benchmark total return*
1992	100.0	100.0	100.0	100.0	100.0	100.0
1993	133.8	139.6	139.0	145.1	133.3	138.1
1994	125.6	135.7	124.8	135.0	125.8	134.6
1995	133.4	149.9	129.5	146.1	141.3	155.9
1996	149.9	174.7	127.1	149.9	160.7	184.5
1997	161.7	195.1	147.1	180.7	169.5	200.7
1998	152.7	190.2	121.9	155.6	148.8	181.2
1999	209.2	269.4	158.1	210.2	221.8	278.1
2000	219.6	291.6	190.5	263.5	230.4	297.3
2001	185.1	260.0	187.1	275.2	189.9	251.3
2002	135.0	204.7	132.9	211.5	133.4	181.5

* Total return figures are based on reinvestment of net income.

Data supplied by Fundamental Data for the Association of Investment Trust Companies.

Rebased to 100 at 31 December 1992.

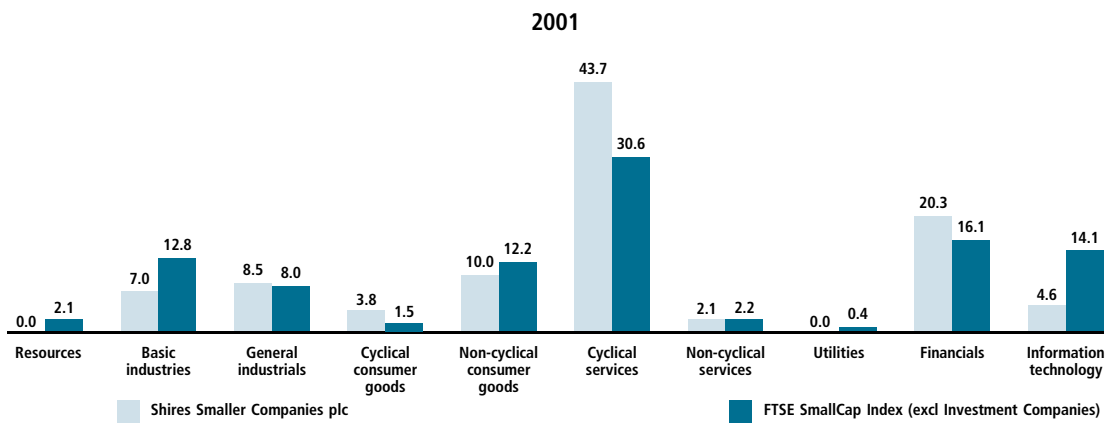
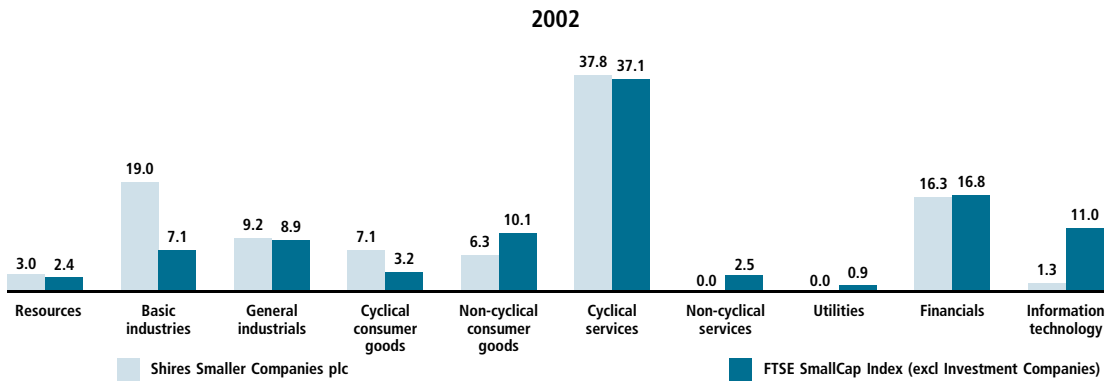
Portfolio of Investments

as at 31 December 2002

	Market value £000	% of portfolio		Market value £000	% of portfolio
ORDINARY SHARES			ORDINARY SHARES (continued)		
Pendragon	1,801	3.2	Jacques Vert	114	0.2
James Fisher & Sons	1,640	2.9	Incepta	101	0.2
British Vita	1,570	2.8	Merchant Retail	58	0.1
Dawson Holdings	1,307	2.3	Advance Value Realisation	35	0.1
Intermediate Capital	1,285	2.3	VIRT-X	30	0.1
Thistle Hotels	1,095	1.9	West 175 Media	5	0.0
Belhaven	1,022	1.8		<u>32,706</u>	<u>57.9</u>
Intercare	984	1.7			
Dairy Crest	940	1.7			
Cattles	934	1.7	CONVERTIBLE PREFERENCE SHARES		
D.F.S. Furniture	885	1.6	Balfour Beatty 10.75p	1,564	2.7
Northgate	882	1.6	Hunting 8.25%	879	1.6
FKI	880	1.6	Wace Group 8%	487	0.9
Britannic	819	1.4	Bellway 9.5%	316	0.5
Aggregate Industries	748	1.3	Hampson Industries 6.5p	189	0.3
Henlys	732	1.3	Emess 6.25p	142	0.3
Mears	725	1.3		<u>3,577</u>	<u>6.3</u>
Zotefoams	722	1.3			
Arriva	684	1.2	CORPORATE BONDS		
Homestyle	664	1.2	National Westminster 7.625% 2010	2,690	4.8
London Scottish Bank	644	1.1	Bank of Scotland 8.117% 2010	2,684	4.8
Peacock	620	1.1	Anglian Water 7.882% 2037	2,659	4.7
Christian Salvesen	590	1.0	Northumbrian Water 6.0% 2017	2,544	4.5
Shanks	582	1.0	Woolworths 8.75% 2006	2,506	4.4
Countrywide Assured	509	0.9	Scottish Mutual 7.25% 2021	1,969	3.5
Delta	500	0.9	Luxfer 10.125% 2004/09*	1,925	3.4
Interserve	499	0.9	Innogy 7.0% 2011	1,609	2.8
Aberforth Geared Income	476	0.8	BG Transco 5.375% 2009	1,502	2.7
Marshalls	468	0.8	P&O Princess Cruises 7.125% 2012	1,404	2.5
Volex	468	0.8	Lafarge 6.875% 2012*	1,043	1.8
New Look	466	0.8	Energis 9.125% 2005/10	12	0.0
Woolworths	466	0.8		<u>22,547</u>	<u>39.9</u>
Diploma	465	0.8			
Malcolm	453	0.8	PREFERENCE SHARES		
Nestor Healthcare	432	0.8	Co-operative Bank 9.25%	332	0.6
SIG	431	0.8	Ecclesiastical Insurance 8.625%	267	0.5
Barratt Developments	391	0.7	HP Bulmer 8.75%	148	0.3
McCarthy & Stone	389	0.7	Aggregate Industries 11.25%	84	0.1
C. Wilson	366	0.6		<u>831</u>	<u>1.5</u>
Codascisys	354	0.6			
Stirling	352	0.6			
600 Group	350	0.6			
Scottish Radio Holdings	349	0.6			
London Merchant Securities	335	0.6			
Aberforth Geared Capital	229	0.4			
Hunting	211	0.4			
Ambient	201	0.4			
CLS	171	0.3			
IFX Power	149	0.3			
AFA Systems	128	0.2			
			Net current liabilities	<u>(3,170)</u>	<u>(5.6)</u>
			Total assets	<u>56,491</u>	<u>100.0</u>

All investments are listed on the London Stock Exchange, except for the investments marked * which are listed overseas.

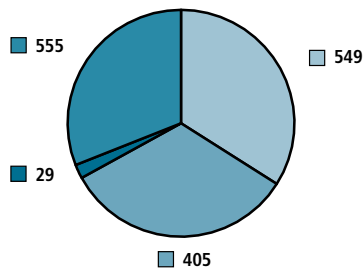
Analysis of Equity Portfolio



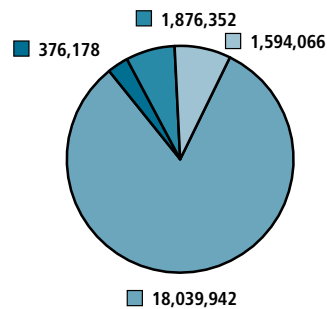
The portfolio is wholly invested in UK listed securities.
Data supplied by Glasgow Investment Managers Ltd and Datastream.

Analysis of Shareholders

Number of Shareholders (1,538)



Number of Shares held (21,886,538)



- Named individuals
- Bank and nominees
- Other institutions
- The Glasgow TrustPlan and The Glasgow PEP

Directors

John Stubbs (Chairman)

Age 58. Joined the Board in 1992 as a founder Director and elected Chairman in 1995. Formerly a director of Friends Ivory & Sime plc. Non-executive director of Ecofin Water & Power Opportunities plc, Geared Opportunities Income Trust plc and Shires Income plc.

Christopher J. F. Arnander

Age 70. Joined the Board in 1992 as a founder Director. Non-executive chairman of Société Générale Arab Fund Limited. Formerly a director of Barclays de Zoete Wedd Limited, Capital Trust Limited, National Provident Institution and The Scottish American Investment Company P.L.C.

Henry S. Cathcart

Age 62. Joined the Board in 1995. Chairman of Speymalt Whisky Distributors Limited. Formerly managing director of Hill Samuel Scotland Limited and a director of Hill Samuel Bank Limited.

A. John R. Izat O.B.E.

Age 70. Joined the Board in 1997. Partner in Williams de Broë Hill Chaplin & Co, Stockbrokers, from 1955 to 1975. Former director of Moredun Research Institute. Non-executive director of Shires Income plc. Director of other companies.

Dinah A. Nichols C.B.

Age 59. Joined the Board in 1999. A Crown Estate Commissioner. Formerly Director General of Environmental Protection at the Department for Environment, Food and Rural Affairs. Formerly non-executive director of the Carbon Trust, Anglian Water plc and of John Laing ETE.

James G. West

Age 55. Joined the Board in April 2002. Formerly Chief Executive of Lazard Asset Management and Managing Director of Lazard Brothers. Non-executive director of Candover Investments plc and British Assets Trust plc. Director of other companies.

All Directors are members of the Audit Committee which is chaired by C. J. F. Arnander and the Nominations Committee which is chaired by J. Stubbs.

Directors' Report

Status of the Company

The Company, which was incorporated in 1992, has received approval as an investment trust by the Inland Revenue for all accounting periods up to and including 31 December 2001 and has since continued to conduct its affairs so as to enable it to retain such approved status. It is a member of the Association of Investment Trust Companies. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Results and Dividends

The financial statements for the year ended 31 December 2002 appear on pages 20 to 33.

A final dividend of 4.75p per share is proposed which, together with the interim dividends already paid, takes the total dividends for the year to 13.75p per share (2001 – 13.75p).

Activities

The Company is an investment trust. Its subsidiary undertaking, Shirescot Securities Limited, operates as an investment dealing company.

Review of the Business

A review of the business is given in the Chairman's Statement and the Investment Managers' Review.

Directors

The Directors are shown on page 12. All held office throughout the year with the exception of J. G. West who was appointed on 1 April 2002. D. A. Nichols and J. Stubbs retire by rotation and, being eligible, offer themselves for re-election. J. G. West, having been appointed since the last Annual General Meeting, retires from office and offers himself for election.

C. J. F. Arnander and A. J. R. Izat, having both attained the age of 70, retire at the Annual General Meeting and are not available for re-election.

There were no contracts subsisting during or at the end of the year in which any Director was materially interested.

Directors' Interests in Shares

The interests of the Directors in office at 31 December 2002 in the ordinary 50p shares in the Company were as follows:

	Beneficial interest		Non-beneficial interest	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
C. J. F. Arnander	24,504	22,651	–	–
H. S. Cathcart	11,337	10,985	–	–
A. J. R. Izat	51,914	51,914	59,000	59,000
J. Stubbs	1,000	1,000	–	–

D. A. Nichols had no interests in the capital of the Company at any time during the year. J. G. West had no interests in the capital of the Company at any time from the date of his appointment to 31 December 2002.

The following Directors hold all or part of their beneficial holdings through The Glasgow TrustPlan and The Glasgow PEP. As a result of standing arrangements to acquire shares in the Company by monthly

Directors' Report

(Continued)

purchases and/or reinvestment of dividends, their beneficial holdings have increased during the period 1 January 2003 to 7 February 2003 as follows:

	Number of shares
C. J. F. Arander	510
H. S. Cathcart	103

There have been no other changes in the Directors' interests between 1 January 2003 and 7 February 2003.

Corporate Governance

The Board has in place Corporate Governance arrangements which it believes are appropriate for an investment trust company and enable the Company to comply with the relevant Principles of Good Governance and Code of Best Practice ("the Combined Code") published by the Committee on Corporate Governance in June 1998. Subject to the special circumstances of the Company as an investment trust, the Company has complied with the provisions set out in Section 1 of the Combined Code throughout the year.

The Board

The Board currently consists of six non-executive Directors who are independent of the Company's Managers, Glasgow Investment Managers Limited ("GIM"), except for J. Stubbs and A. J. R. Izat who are non-executive Directors of Shires Income plc, which has a substantial minority interest in GIM. A. J. R. Izat is also a non-executive Director of GIM Holdings Limited, the immediate parent company of GIM. Biographies of the Directors appear on page 12.

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

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

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

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

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

Relations with shareholders

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

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

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

Directors' Report

(Continued)

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 Combined Code, it is a requirement that the Board reviews the effectiveness of the Company's system of internal controls, extending the existing requirements in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management. The Board has therefore established regular review procedures for the identification, evaluation and management of significant risks to the Company, to enable full compliance with guidance issued in September 1999 by the Turnbull Committee.

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

Going Concern

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

Payment Policy

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

Substantial Interests

As at 7 February 2003 the Company had received notification of the following interests in its ordinary shares:

	Number of shares	% of total
Shires Income plc	6,286,808	28.7
Universities Superannuation Scheme Limited	998,030	4.6

In addition, the Company is aware of the following substantial interests in its ordinary shares as at 7 February 2003:

Glasgow Investment Managers Limited as Plan Manager of The Glasgow PEP	595,851	2.7
Glasgow Investment Managers Limited as Managers of The Glasgow TrustPlan	906,909	4.1

Directors' Report

(Continued)

Directors' Remuneration Report

This Annual Report contains for the first time a new report in accordance with the Directors' Remuneration Report Regulations 2002. Under these Regulations, the report, which appears on page 17, must be approved by the Directors and laid before the Members of the Company at the same time as the audited financial statements and be the subject of a separate resolution as part of the Ordinary Business at the Annual General Meeting. The outcome of the vote on this resolution has no practical or legal effect and its sole function is to enable Members to demonstrate whether or not they are in agreement with the Board's policies in this matter and the rates of remuneration which the Directors decide to pay themselves. Accordingly, Resolution 2 will be proposed as an ordinary resolution to enable Members either to show that they approve of the contents of the Directors' Remuneration Report by voting 'For' the resolution, or to show their disapproval by voting 'Against' the resolution.

Authority to disapply statutory pre-emption rights

The power given to Directors at the last Annual General Meeting to allot shares for cash otherwise than in accordance with the statutory pre-emption rights expires on the date of the forthcoming Annual General Meeting. Since in certain circumstances it may be in the best interests of the Company to issue shares for cash otherwise than *pro rata* to existing shareholders, the Directors consider that it is appropriate for this power to be renewed at the forthcoming Annual General Meeting. Accordingly, Resolution 8 will be proposed as a special resolution giving the Directors power to allot for cash, as if section 89(1) of the Companies Act 1985 did not apply, equity securities in connection with a rights issue and, provided the shares are issued at a price not less than their underlying fully diluted net asset value, in other cases up to an aggregate nominal amount of £1,094,327, which is equivalent to approximately 10% of the present issued ordinary share capital of the Company. This power will require to be renewed at the Annual General Meeting in 2004. New shares will be issued only in compliance with the policies of the UK Listing Authority concerning the issuing of new shares for cash.

Authority to buy back shares

The resolution passed at the last Annual General Meeting to authorise the Company to make market purchases of up to 14.99% of its own ordinary shares expires on the date of the forthcoming Annual General Meeting. Accordingly, Resolution 9 will be proposed as a special resolution to renew this authority for a further year.

Auditors

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

By Order of the Board

Glasgow Investment Managers Limited

Secretaries

17 February 2003

Directors' Remuneration Report

Policy

The Board as a whole reviews and sets the rates of remuneration payable to each Director with effect from the annual review date of 1 October each year. The Board is aware that these should be comparable to market rates in order to attract and retain directors of the appropriate calibre and reflect the time spent and responsibilities borne by Directors in exercising the stewardship required of this Company. In setting these rates, the Board acts principally on advice from the Managers, Glasgow Investment Managers Limited ("GIM"), who monitor rates of directors' remuneration in companies of comparable size and activities and carry out any other relevant research requested by the Board. No separate remuneration committee has been constituted in view of the level of work delegated to GIM. Further details of the services provided by GIM are contained in note 3 to the financial statements.

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

No Director has a service contract with the Company or its subsidiary undertaking.

Directors' Remuneration Rates

The present annual rates of remuneration with effect from 1 October 2002 are £15,000 for the Chairman and £10,000 for each other Director, unchanged from the rates set at the previous remuneration review date on 1 October 2001.

The Articles of Association of the Company set a maximum aggregate limit within a financial year for non-executive directors' remuneration. This limit, which was last adjusted by special resolution at the Annual General Meeting of the Company held on 23 March 2001, is £70,000 per annum, subject to annual upward adjustment on 1 January each year in line with the change in the Retail Price Index from December 2000 to the preceding December. The limit for the year ended 31 December 2002 was therefore £70,488 and the limit for the forthcoming year to 31 December 2003 is £72,561.

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

	Group and Company	
	2002	2001
	£	£
J. Stubbs (Chairman)	15,000	13,650
C. J. F. Arnander	10,000	9,100
H. S. Cathcart	10,000	9,100
A. J. R. Izat	10,000	9,100
D. A. Nichols	10,000	9,100
J. G. West (appointed 1 April 2002)	7,500	–
	<u>£62,500</u>	<u>£50,050</u>

The fee payable to D. A. Nichols was paid to a third party.

There is no performance related remuneration scheme such as an annual bonus, or a long-term incentive scheme such as the granting of share options. The Company does not operate a pension scheme for the Directors and no Director received any form of remuneration during the present or preceding financial year other than the fees shown above.

Performance

The Absolute Performance graph on page 3 of this Annual Report shows the total return to an investor in the Company as measured both on a share price basis and on a net asset value basis, both with dividends reinvested, during the five years ended 31 December 2002, together with the performance over the same period of the FTSE SmallCap Total Return (excluding Investment Companies) Index, the benchmark index most appropriate to this Company.

Approved by the Board of Directors on 17 February 2003 and signed on its behalf.

J. Stubbs, Chairman

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

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the total return of the Group for the year then ended. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- apply the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial positions of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Shires Smaller Companies plc

We have audited the financial statements on pages 20 to 33. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective Responsibilities of Directors and Auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 14 and 15 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the total return of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Glasgow

17 February 2003

Consolidated Statement of Total Return

(incorporating the Revenue Account*)

for the year ended 31 December 2002

	Notes	Revenue £000	2002 Capital £000	Total £000	Revenue £000	2001 Capital £000	Total £000
Losses on investments	11	–	(10,148)	(10,148)	–	(6,356)	(6,356)
Income	2	4,184	–	4,184	4,125	–	4,125
Investment management fee	3	(289)	(289)	(578)	(321)	(321)	(642)
Other administrative expenses	4	(254)	–	(254)	(216)	–	(216)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		3,641	(10,437)	(6,796)	3,588	(6,677)	(3,089)
Finance costs:							
Loans and overdrafts	6	(612)	(612)	(1,224)	(629)	(629)	(1,258)
Zero coupon finance	16	–	(955)	(955)	–	(892)	(892)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		3,029	(12,004)	(8,975)	2,959	(8,198)	(5,239)
Taxation	7	(15)	15	–	–	–	–
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		3,014	(11,989)	(8,975)	2,959	(8,198)	(5,239)
Dividends on equity shares	9	(3,009)	–	(3,009)	(3,009)	–	(3,009)
TRANSFER TO/(FROM) RESERVES	21	5	(11,989)	(11,984)	(50)	(8,198)	(8,248)
Return per share	10	13.77p	(54.78)p	(41.01)p	13.52p	(37.45)p	(23.93)p
Dividends per share	9	13.75p			13.75p		

*The revenue column of this statement is the consolidated revenue account of the Group. The accompanying notes are an integral part of this statement. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

Balance Sheets

as at 31 December 2002

	Notes	Group		Company	
		2002 £000	2001 £000	2002 £000	2001 £000
FIXED ASSETS					
Listed investments	11	59,661	74,018	59,661	74,018
Subsidiary undertaking	12	—	—	—	—
		<u>59,661</u>	<u>74,018</u>	<u>59,661</u>	<u>74,018</u>
CURRENT ASSETS					
Debtors	13	961	923	1,101	923
Investments of dealing subsidiary undertaking	14	140	—	—	—
Cash at bank		89	—	89	—
		<u>1,190</u>	<u>923</u>	<u>1,190</u>	<u>923</u>
CREDITORS					
Amounts falling due within one year	15	<u>(4,360)</u>	<u>(7,427)</u>	<u>(4,360)</u>	<u>(7,429)</u>
NET CURRENT LIABILITIES					
		<u>(3,170)</u>	<u>(6,504)</u>	<u>(3,170)</u>	<u>(6,506)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>56,491</u>	<u>67,514</u>	<u>56,491</u>	<u>67,512</u>
CREDITORS					
Amounts falling due after more than one year	16	<u>(24,183)</u>	<u>(23,222)</u>	<u>(24,183)</u>	<u>(23,222)</u>
NET ASSETS					
		<u>32,308</u>	<u>44,292</u>	<u>32,308</u>	<u>44,290</u>
CAPITAL AND RESERVES					
Called up share capital	17	10,943	10,943	10,943	10,943
Share premium account	18	11,490	11,490	11,490	11,490
Capital redemption reserve	19	2,032	2,032	2,032	2,032
Realised capital reserve	20	13,926	14,833	13,926	14,833
Unrealised capital reserve	20	(6,905)	4,177	(6,905)	4,177
Revenue reserve	21	822	817	822	815
EQUITY SHAREHOLDERS' FUNDS					
	26	<u>32,308</u>	<u>44,292</u>	<u>32,308</u>	<u>44,290</u>
Net asset value per share	10	147.6p	202.4p		

Approved by the Board of Directors on 17 February 2003 and signed on its behalf.

John Stubbs, Chairman

The accompanying notes are an integral part of these balance sheets.

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Notes	2002		2001	
		£000	£000	£000	£000
OPERATING ACTIVITIES					
Dividends and interest received					
from investments			4,060		4,194
Income tax recovered			108		–
Deposit interest received			10		43
Dealing subsidiary receipts			–		127
Other cash received			2		7
Administrative expenses paid			(638)		(843)
Payments to and on behalf of Directors			(71)		(53)
Dealing subsidiary payments			(171)		(101)
NET CASH INFLOW FROM					
OPERATING ACTIVITIES	23		3,300		3,374
SERVICING OF FINANCE					
Interest paid		(1,228)		(1,268)	
Income tax paid		–		(90)	
			(1,228)		(1,358)
TAXATION					
Corporation tax paid			(4)		–
INVESTING ACTIVITIES					
Purchases of investments		(34,400)		(39,466)	
Sales of investments		38,609		37,937	
NET CASH INFLOW/(OUTFLOW) FROM					
INVESTING ACTIVITIES			4,209		(1,529)
EQUITY DIVIDENDS PAID			(3,009)		(2,516)
INCREASE/(DECREASE) IN CASH	25		3,268		(2,029)

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

The financial statements of the Company and the Group have been prepared in accordance with applicable accounting standards and, except as referred to in paragraph (e) below, in accordance with the Statement of Recommended Practice (SORP) issued by the Association of Investment Trust Companies in 1995. The effects on capital and income of the items involving departures from the SORP are set out under Risk Management – Income Enhancement in note 27. The principal accounting policies are as follows:

(a) Accounting convention

The financial statements are prepared under the historical cost convention as modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will continue to be granted.

(b) Consolidation

The Group financial statements consolidate the results of the Company and its subsidiary undertaking under the acquisition method of accounting. The Company has availed itself of the relief from showing a revenue account for the parent company, granted under section 230 of the Companies Act 1985.

(c) Investments

Listed investments are valued at middle market prices ruling on the balance sheet date.

(d) Gains and losses on investment transactions

Company

Gains and losses arising on sales of investments are taken to realised capital reserve. Unrealised appreciation or depreciation of investments is taken to unrealised capital reserve.

Investment dealing subsidiary undertaking

Investments held are shown as current assets at the lower of cost and market value. Gains and losses arising on the sale of these investments are dealt with in the revenue account.

(e) Income and expenditure

Dividends are credited to revenue on the date when the investment is first quoted ex-dividend at the amount receivable without any attributable tax credit.

The SORP requires that income from preference shares be recognised on an effective yield basis. The Directors consider that this is not appropriate for a high-yielding investment trust because the effective yield basis does not recognise the fact that the dividend declared and paid on a preference share is in fact an appropriation of, and not a charge against, profit.

Interest from debt securities and deposits, interest payable and expenses of management are dealt with on an accruals basis.

The finance costs of borrowings and the fee payable to the Company's managers are charged partly to capital and partly to revenue in proportion to the expected long-term split of returns in the form of capital gains and income from the Company's entire investment portfolio.

All other expenses of management are charged to revenue. Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the sale proceeds of the investment.

The Company has in place medium-term funding in the form of zero coupon finance through a series of option transactions on the FTSE 100 Index. As a result of the specific design of the strategy, the net movement in the value of the options is treated as a charge to capital. This represents a departure from the SORP which recommends that finance costs are allocated between capital and revenue in accordance with the Board's expected long-term split of returns. In making a charge wholly to capital, this follows the

Notes to the Financial Statements

(Continued)

accounting treatment for zero dividend preference shares, for which the SORP accepts the finance costs may be charged to capital. This form of finance represents a cheaper and more flexible alternative to zero dividend preference shares. The costs associated with the zero coupon finance are shown as a separate component of finance costs on the face of the Consolidated Statement of Total Return.

Underwriting commission is taken to revenue, unless any shares underwritten are required to be taken up, in which case the commission received is deducted from the cost of the investment.

(f) Finance costs and long-term borrowings

Long-term borrowings are stated at the amount of the proceeds of issue net of expenses. The finance costs, being the difference between the net proceeds of borrowing and the total amount of payments that require to be made in respect of that borrowing, accrue evenly over the life of the borrowing and are allocated between capital and revenue as stated in note (e) above.

(g) Taxation

The Company has adopted Financial Reporting Standard 19, "Deferred Tax". Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The implementation of this standard has had no effect on the results of the current or prior periods.

(h) 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. INCOME

	2002 £000	2001 £000
Income from investments		
UK dividend income	2,533	1,993
UK unfranked investment income	1,005	1,184
Overseas interest	665	891
	<u>4,203</u>	<u>4,068</u>
Other income		
Deposit interest	10	24
Underwriting commission	2	7
Profits less losses of dealing subsidiary undertaking	(31)	26
	<u>(19)</u>	<u>57</u>
TOTAL INCOME	<u>4,184</u>	<u>4,125</u>

Dividend income includes special dividends totalling £Nil (2001 – £25,000).

UK dividend income includes £291,000 (2001 – £Nil), i.e. 7% of Income, raised from the purchase of securities which were subsequently sold within one month. The net capital losses on these transactions amounted to £338,000.

Notes to the Financial Statements

(Continued)

3. SECRETARIAL AND MANAGEMENT FEE

Glasgow Investment Managers Limited (“GIM”) acts as investment managers and secretaries to the Company under a contract which is subject to one year’s notice of termination. The fee is at an annual rate of 0.75% of the amount of shareholders’ funds plus medium and long-term funding calculated monthly and paid quarterly. The fee for the year ended 31 December 2002 was £512,000 (2001 – £566,000) exclusive of VAT. £20,000 (plus VAT) of the annual total fee is in respect of secretarial services and is allocated to revenue. The remainder of the fee is allocated 50% to capital and 50% to revenue. The Company also pays GIM an annual fee of £3,000 (plus VAT) for services in relation to the Company’s participation in The Glasgow PEP. At 31 December 2002 the total amount of these fees owed to GIM (exclusive of VAT) was £114,000 (2001 – £129,000).

Shires Income plc has a substantial minority interest in GIM. At 31 December 2002, Shires Income plc had a 28.7% (2001 – 28.7%) interest in the shares of Shires Smaller Companies plc.

4. OTHER ADMINISTRATIVE EXPENSES

	2002 £000	2001 £000
Directors’ remuneration – fees as directors	63	50
Fees payable to auditors and associates – as auditors	13	10
– for other services	2	6
Other management expenses	176	150
	<u>254</u>	<u>216</u>

5. DIRECTORS’ REMUNERATION

The Company had no employees during the year (2001 – Nil). No pension contributions were paid for Directors (2001 – £Nil).

6. FINANCE COSTS OF BORROWINGS

	Revenue £000	2002 Capital £000	Total £000	Revenue £000	2001 Capital £000	Total £000
Loan repayable in more than two but less than five years	453	453	906	453	453	906
Bank loans and overdrafts	159	159	318	176	176	352
	<u>612</u>	<u>612</u>	<u>1,224</u>	<u>629</u>	<u>629</u>	<u>1,258</u>

Notes to the Financial Statements

(Continued)

7. TAXATION

All management expenses arising on Revenue items brought forward from previous years and arising this year were relieved against taxable revenue. By relieving £81,000 of surplus management expenses arising on Capital items against the remaining taxable revenue, the Company eliminated its corporation tax charge. However, an amount equal to 19% of £81,000, i.e. £15,000, has been credited to Capital and charged to Revenue as a notional corporation tax item to prevent the distribution of capital equal to this amount.

At 31 December 2002, the Company had surplus management expenses with a tax value of £1,761,000 (2001 – £1,651,000), all arising in Capital (2001 – Revenue: £135,000, Capital: £1,516,000), to carry forward. No deferred tax has been recognised in the current or prior periods.

The following table is a reconciliation of the current taxation (charge)/credit to the charges or credits which would arise if all ordinary activities were taxed at the standard UK corporation tax rate of 30% (2001 – 30%):

	Revenue £000	2002 Capital £000	Total £000	Revenue £000	2001 Capital £000	Total £000
Return on Ordinary Activities before Taxation	3,029	(12,004)	(8,975)	2,959	(8,198)	(5,239)
Taxation of Return on Ordinary Activities at the standard rate of corporation tax	(909)	3,601	2,692	(887)	2,459	1,572
Effects of:						
UK dividend income not liable to further tax	760	–	760	598	–	598
Capital losses not liable to capital gains tax	–	(3,044)	(3,044)	–	(1,907)	(1,907)
Zero Coupon finance costs not an allowable tax deduction	–	(287)	(287)	–	(267)	(267)
Utilisation of surplus management expenses	135	(254)	(119)	290	(284)	6
Timing differences	(1)	(1)	(2)	(1)	(1)	(2)
Current taxation (charge)/credit for the year	(15)	15	–	–	–	–

8. REVENUE AFTER TAXATION FOR THE FINANCIAL YEAR

The revenue after taxation for the financial year includes £3,016,000 (2001 – £2,958,000) which has been dealt with in the Company's financial statements.

9. DIVIDENDS ON EQUITY SHARES

	2002 p	2001 p	2002 £000	2001 £000
Interims paid	9.00	9.00	1,969	1,969
Proposed final	4.75	4.75	1,040	1,040
	13.75	13.75	3,009	3,009

Notes to the Financial Statements

(Continued)

10. RETURN AND NET ASSET VALUE PER SHARE

The returns per share are based on the following figures:

	2002	2001
Revenue return	£3,014,000	£2,959,000
Capital return	£(11,989,000)	£(8,198,000)
Weighted average number of shares	21,886,538	21,886,538

Net asset value per share is based on net assets attributable to shareholders of £32,308,000 (2001 – £44,292,000) and on the 21,886,538 (2001 – 21,886,538) shares in issue at 31 December 2002.

11. FIXED ASSET INVESTMENTS

	Group and Company	
	2002 £000	2001 £000
Listed on recognised stock exchanges:		
In the United Kingdom	56,693	66,657
Overseas	2,968	7,361
	<u>59,661</u>	<u>74,018</u>
		Group and Company £000
Cost at 31 December 2001		69,841
Unrealised appreciation at 31 December 2001		4,177
Valuation at 31 December 2001		74,018
Purchases		34,400
Sales – proceeds		(38,609)
– net realised gains on sales		934
Movement in unrealised appreciation during the year		(11,082)
Valuation at 31 December 2002		<u>59,661</u>
Cost at 31 December 2002		66,566
Unrealised depreciation at 31 December 2002		(6,905)
Valuation at 31 December 2002		<u>59,661</u>

For an analysis of investments between equity and fixed interest securities and for detailed interest rates, see page 10.

(Losses)/Gains on investments

	Group and Company	
	2002 £000	2001 £000
Net realised gains on sales	934	1,391
Movement in unrealised appreciation	(11,082)	(7,747)
	<u>(10,148)</u>	<u>(6,356)</u>

Notes to the Financial Statements

(Continued)

12. SUBSIDIARY UNDERTAKING

	2002 £000	Company 2001 £000
Shares at cost	—	—

The Company owns the whole of the issued ordinary share capital of its sole subsidiary undertaking, Shirescot Securities Limited, an investment dealing company registered in Scotland.

13. DEBTORS

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Amounts falling due within one year:				
Taxation recoverable	4	108	—	108
Accrued income	942	799	942	799
Due by subsidiary undertaking	—	—	144	—
Other debtors	15	16	15	16
	<u>961</u>	<u>923</u>	<u>1,101</u>	<u>923</u>

14. INVESTMENTS OF DEALING SUBSIDIARY UNDERTAKING

	2002 £000	Group 2001 £000
At lower of cost and market value:		
Listed in the United Kingdom	140	—

The market value of the investments held at 31 December 2002 was £140,000 (2001 – £Nil).

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Bank loans and overdrafts	3,000	6,179	3,000	6,179
Proposed dividend	1,040	1,040	1,040	1,040
Due to subsidiary undertaking	—	—	—	2
Other creditors	320	208	320	208
	<u>4,360</u>	<u>7,427</u>	<u>4,360</u>	<u>7,429</u>

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

Notes to the Financial Statements

(Continued)

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

	Group and Company	
	2002 £000	2001 £000
Zero coupon finance	14,199	13,244
Long-term loan	9,984	9,978
	<u>24,183</u>	<u>23,222</u>

Zero coupon finance

The zero coupon finance arrangement comprises a set of separately traded financial instruments (FTSE 100 Index options). The difference between the net proceeds raised and the financial obligations of the Company when these options expire or are assigned or exercised in August 2005 constitutes the cost of this finance. This is treated as a charge to realised capital reserve and shown as a separate component of finance costs on the face of the Consolidated Statement of Total Return. The amount so charged to capital is equivalent to 7.2% per annum and is charged constantly at that rate throughout each financial period and added to the amount outstanding at the end of the period.

On 18 November 2002, the existing FTSE 100 Index options, which were in the form of Over The Counter transactions, were closed. On the same date, similar options were purchased and written on the London International Financial Futures Exchange (LIFFE) market. There has been no change in the underlying financial substance of these options, except that there is now a different counterparty to whom the liability will require to be extinguished in August 2005.

The closure and subsequent re-opening of these options on a different market was undertaken at no cost to the Company.

As at 31 December 2002, the Company had pledged collateral equal to at least 111% of the market value of this finance in accordance with standard commercial practice.

The movements in the book value of this finance were as follows:

	Group and Company	
	2002 £000	2001 £000
At 31 December 2001	13,244	12,352
Finance costs charged to capital	955	892
At 31 December 2002	<u>14,199</u>	<u>13,244</u>

At 31 December 2002, the market values of the components of this finance were as follows:

	Group and Company	
	2002 £000	2001 £000
Written options	31,773	22,540
Purchased options	<u>(16,435)</u>	<u>(8,539)</u>
Net liability	<u>15,338</u>	<u>14,001</u>

Long-term loan

The long-term loan, which was taken out in 1995, is stated at the principal amount of £10,000,000 less expenses. Interest is fixed at 9% per annum on the principal amount and is payable in arrears on 30 June and 31 December in each year. The loan is repayable at par on 31 December 2005 and is secured by a floating charge over the whole of the property and undertaking of the Company.

The Directors' opinion of the fair value of the long-term loan at 31 December 2002, determined by reference to the current interest profile of similar instruments, was £11,849,000.

Notes to the Financial Statements

(Continued)

17. CALLED UP SHARE CAPITAL

	Number	Ordinary shares of 50 pence each £000
Authorised		
At 31 December 2001 and 31 December 2002	35,000,000	17,500
Allotted, called up and fully paid		
At 31 December 2001 and 31 December 2002	21,886,538	10,943

18. SHARE PREMIUM ACCOUNT

	£000
At 31 December 2001 and 31 December 2002	11,490

At 31 December 2002 the share premium account included £972,000 (2001 – £972,000) which was originally received as proceeds of issues of warrants to subscribe for ordinary shares. All of these warrants were subsequently exercised and the proceeds transferred from a warrants reserve.

19. CAPITAL REDEMPTION RESERVE

	£000
At 31 December 2001 and 31 December 2002	2,032

20. OTHER CAPITAL RESERVES

	Group and Company £000
Realised capital reserve	
At 31 December 2001	14,833
Net gains on sales of investments during the year	934
Tax credit allocated to capital	15
Finance costs of borrowings (note 6)	(612)
Zero coupon finance costs (note 16)	(955)
Investment management fee	(289)
At 31 December 2002	13,926
Unrealised capital reserve	
At 31 December 2001	4,177
Movement during the year:	
Fixed asset investments	(11,082)
At 31 December 2002	(6,905)

The capital reserves are not distributable.

21. REVENUE RESERVE

	Group £000	Company £000
At 31 December 2001	817	815
Transfer to revenue account	5	7
At 31 December 2002	822	822

Notes to the Financial Statements

(Continued)

22. ANALYSIS OF CHANGES IN FINANCING

	Share capital £000	Share premium £000	Capital redemption reserve £000	Long-term loan £000	Zero coupon finance £000	Total £000
At 31 December 2001	10,943	11,490	2,032	9,978	13,244	47,687
Deferred finance costs	–	–	–	6	955	961
At 31 December 2002	10,943	11,490	2,032	9,984	14,199	48,648

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

	2002 £000	2001 £000
Net revenue before finance costs and taxation	3,641	3,588
Investment management fee charged to capital	(289)	(321)
(Increase)/ Decrease in accrued income	(143)	145
Decrease/(Increase) in other debtors	1	(10)
Increase/(Decrease) in other creditors	122	(28)
Increase in dealing investments	(140)	–
Repayment of UK income tax	108	–
Net cash inflow from operating activities	3,300	3,374

24. ANALYSIS OF CHANGES IN NET DEBT

	At 31 December 2001 £000	Cash flows £000	Other non-cash changes £000	At 31 December 2002 £000
Cash at bank and in hand	–	89	–	89
Bank loans and overdrafts	(6,179)	3,179	–	(3,000)
Long-term loan	(9,978)	–	(6)	(9,984)
Zero coupon finance	(13,244)	–	(955)	(14,199)
	(29,401)	3,268	(961)	(27,094)

25. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £000	2001 £000
Increase/(Decrease) in cash at bank and in hand	89	(850)
Decrease/(Increase) in bank loans and overdrafts	3,179	(1,179)
Increase in cash during the year	3,268	(2,029)
Zero coupon finance costs (note 16)	(955)	(892)
Deferred finance costs of long-term loan	(6)	(5)
Movement in net debt	2,307	(2,926)
Net debt at 31 December 2001	(29,401)	(26,475)
Net debt at 31 December 2002	(27,094)	(29,401)

Notes to the Financial Statements

(Continued)

26. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £000	2001 £000
Total revenue returns	3,014	2,959
Dividends	(3,009)	(3,009)
Transfer to/(from) distributable reserves	5	(50)
Total capital returns	(11,989)	(8,198)
Net decrease in shareholders' funds	(11,984)	(8,248)
Shareholders' funds at 31 December 2001	44,292	52,540
Shareholders' funds at 31 December 2002	32,308	44,292

27. RISK MANAGEMENT, FINANCIAL ASSETS AND LIABILITIES

The following information is given in accordance with Financial Reporting Standard 13, "Derivatives and Other Financial Instruments: disclosures".

Risk Management

The Company's objective of providing a high and growing dividend with capital growth is addressed by investing in smaller UK market capitalisation equities to provide growth in capital and income and in fixed income securities to provide a high level of income.

The impact of security price volatility is reduced by diversification and by hedging instruments. 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 Managers, which specify the limits within which the Managers are authorised to act.

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.

Financial Assets and Liabilities

The Group's financial assets include investments, cash at bank and short-term debtors. Financial liabilities consist of bank loans and overdrafts, other short-term creditors and long-term creditors arising from option contracts and a fixed rate term loan.

The book value of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. Investments held as dealing investments are valued at the lower of cost and market value. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices (see note 11). For details of bond maturities and interest rates, see page 10. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

As at 31 December 2002, the weighted average number of years to redemption of the corporate bond portfolio was 12.1 years (2001 – 8.6 years) and the interest yield on the portfolio was 7.6% (2001 – 8.4%).

Gearing

The Company issued a 9% secured loan in 1995 and augments this from time to time with short-term borrowings so that greater returns to shareholders may be generated from the capital stock thus enlarged. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce both short-term borrowings and the zero coupon finance as appropriate.

Notes to the Financial Statements

(Continued)

Income Enhancement

As further described in note 16, zero coupon finance raised in the derivatives market is invested in corporate fixed interest securities and convertibles to augment the income available for distribution to shareholders. The cost of these funds is fixed when they are raised, and is charged wholly to capital.

In addition, dividend income on preference shares was purchased during the year and taken to income as set out in note 2. This was undertaken to offset the loss of revenue due to the default on the interest payments of the Energis 9.125% 2010 corporate bond, upon which an unrealised capital loss of £1,860,000 was incurred.

The effect of these income enhancement strategies on capital and income is summarised in the table below. There is a risk with these strategies that capital will be eroded unless the charges to capital are covered by gains elsewhere in the portfolio, and this is managed by investing in a portfolio of shares which in the long run is expected to provide adequate capital growth to absorb both the zero coupon finance cost and the capital cost of buying in income while paying growing dividends which contribute to the pursuit of the Company's objectives.

In following this strategy, the Directors recognise that there is only one class of shareholder.

	2002		2001	
	Income £000	Capital £000	Income £000	Capital £000
Zero coupon finance				
Finance costs charged to capital	–	(955)	–	(892)
Return on corresponding investments	835	(750)	1,038	(22)
Purchases of preference shares cum-dividend and sales ex-dividend	291	(338)	–	–
	<u>1,126</u>	<u>(2,043)</u>	<u>1,038</u>	<u>(914)</u>

28. COMMITMENTS AND CONTINGENCIES

At 31 December 2002 there was a capital commitment amounting to £150,000 in respect of a placing of new shares (2001 – £Nil).

Information for Shareholders

Annual General Meeting

This year's AGM will be held at Trinity House, Tower Hill, London EC3N 4DH on Friday 21 March 2003 at 12 noon.

Financial Calendar for 2003

21 March	Annual General Meeting
14 August	Interim results announced
21 August	Interim Report published

Price and Net Asset Value information

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

Cost of shares and warrants for capital gains tax

The ordinary shares and warrants were first issued on the Company's flotation in 1992. A further issue of shares and warrants was made in 1994. For shareholders subscribing at the time of these issues, the acquisition costs for capital gains tax, adjusted for indexation to 5 April 1998, were as follows:

1992 subscriptions		1994 subscriptions	
– Ordinary shares	113.15p	– Ordinary shares	162.13p
– Warrants	19.55p	– Warrants	88.95p

The Glasgow TrustPlan

The Glasgow TrustPlan is an investment trust savings scheme which provides private investors with a simple and economical method of investing directly in Shires Smaller Companies plc, Shires Income plc and Glasgow Income Trust plc, the investment trusts managed by Glasgow Investment Managers Limited ("GIM"). Investors can make monthly payments (minimum £20) or invest occasional lump sums (minimum £200). Dividends may be reinvested. Further information may be obtained from GIM on FREEFONE 0800 435 797.

PEPs and ISAs

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

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

Share Register enquiries

The Company's Registrars, Lloyds TSB Registrars Scotland, maintain the share register. In the event of queries regarding your shares, please contact the Registrars on 0870 601 5366. Changes of name or address must be notified in writing to Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ.

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 holding their shares in nominee names may, if appointed as a proxy by the nominee company, attend general meetings and speak when invited by the Chairman.

Company Administration

Managers, Secretaries and Registered Office

Glasgow Investment Managers Limited
Sutherland House
149 St Vincent Street
Glasgow G2 5DR
(Regulated by the FSA)

Auditors

KPMG Audit Plc

Solicitors

Maclay Murray & Spens

Stockbrokers

Cazenove & Co
Williams de Broë Plc

Bankers

HSBC Bank plc

Registrars and Transfer Office

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Telephone 0870 601 5366

Company Registration Number 137448 (Scotland)

Glossary of Investment Terms

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 these accounts is the total return on the FTSE SmallCap Index (excluding Investment Companies), a recognised and respected index which measures the performance of around 400 quoted UK companies each with a market capitalisation below £250 million.

Convertibles

Fixed income securities which may be converted into shares.

Corporate Bond

A fixed interest bond issued by a company. Corporate bonds are given grades which show how likely a company is to pay the interest and repay the capital owed at the end of the term. Investment grade bonds are considered to have a lower risk of default which means interest on the loan and the loan itself is almost certainly going to be paid back. Non-investment grade bonds carry a higher risk for investors as there is deemed to be a greater chance the company issuing the bond may default.

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.

Gearing

The term applied to the effect of borrowings on assets which will increase the return on investment when the value of the Company's investments is rising but reduce the return when values are declining. A level of 0% indicates there is no gearing.

Net Asset Value

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

Preference Shares

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

Premium

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

Total Assets

Total assets less current liabilities.

Total Expense Ratio

Total annual operating costs (net of tax relief), excluding interest costs, divided by the average shareholders' funds (calculated according to Association of Investment Trust Companies' guidelines).

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the eleventh Annual General Meeting of the Members of Shires Smaller Companies plc will be held at Trinity House, Tower Hill, London, EC3N 4DH on Friday 21 March 2003 at 12 noon to transact the following business:

Ordinary Business

- Resolution 1. To receive and adopt the Directors' Report and audited financial statements for the year ended 31 December 2002.
- Resolution 2. To receive and adopt the Directors' Remuneration Report for the year ended 31 December 2002.
- Resolution 3. To declare a final dividend.
- Resolution 4. To elect J. G. West as a Director.
- Resolution 5. To re-elect D. A. Nichols as a Director.
- Resolution 6. To re-elect J. Stubbs as a Director.
- Resolution 7. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

- Resolution 8. That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities for cash as if subsection 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited
- (i) to the allotment of equity securities in connection with a rights issue where it is, in the opinion of the Directors, necessary or expedient to deal with problems under the laws of any overseas territory or the requirements of any regulatory body or any Stock Exchange in any overseas territory or in connection with fractional entitlements; and
- (ii) to the allotment (otherwise than pursuant to (i) above) of ordinary shares up to an aggregate nominal amount of £1,094,327 at a price per share not less than the fully diluted net asset value of an ordinary share in the Company calculated as at the close of business on the immediately preceding business day,
- and shall expire at the conclusion of the Annual General Meeting of the Company in 2004 but so that this power shall enable the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired and for this purpose words and expressions defined in or for the purpose of Part IV of the Act shall bear the same meanings in this resolution.
- Resolution 9. That the Company be and it is hereby generally and unconditionally authorised to make market purchases of any of its own ordinary shares in such manner and upon such terms as the Directors of the Company may from time to time determine, provided that

Notice of Annual General Meeting

(Continued)

(i) the maximum aggregate nominal value of the ordinary shares hereby authorised to be acquired shall be limited to £1,640,396, being equal to approximately 14.99% of the ordinary shares in issue;

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

(iii) the authority hereby conferred shall expire (unless previously revoked or renewed) on 21 March 2004 or at the conclusion of the next Annual General Meeting of the Company held after the passing of this Resolution, whichever is the later, provided that the Company may before such expiry make any contract of purchase of ordinary shares which would or might be executed wholly or partly after the expiry of such authority and the Company may make such a purchase in pursuance of such contract as if the authority hereby conferred had not expired.

By Order of the Board

Glasgow Investment Managers Limited

Secretaries

18 February 2003

Note:

A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote in place of him. A proxy need not be a member of the Company. A form of proxy is enclosed which, if required, should be completed in accordance with the instructions thereon.

Completion and return of the proxy will not preclude a member from attending and voting in person.

Glasgow Investment Managers Limited

(Regulated by the FSA)

Glasgow Investment Managers, the company which manages Shires Smaller Companies plc, is principally owned by its directors and staff with an investment trust (Shires Income plc) holding the remaining interest.

Glasgow Investment Managers also manages:

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

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

This page and page 34 are issued and approved by Glasgow Investment Managers Limited, regulated by the FSA. Past performance is not indicative of future performance. The price of shares and the income from them may go down as well as up and it is possible that investors may not get back the full amount invested on disposal of the shares. Investment Trusts have the facility to borrow which, if used, should enhance net asset value when the value of the company's investments is rising, but will have the opposite effect when the value of the company's investments is falling. 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. Investment Trusts that invest in the securities of smaller companies are likely to carry a higher degree of risk than most Trusts.

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



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Tel: 0141 572 2700 Fax: 0141 572 2777

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