

Shires Income PLC

Half Yearly Report
for the six months ended 30 September 2016



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Investment Objective

The Company’s investment objective is to provide shareholders with a high level of income, together with growth of both income and capital from a portfolio substantially invested in UK equities.

Highlights and Financial Calendar

Highlights

	30 September 2016	31 March 2016	% change
Equity shareholders' funds (£'000)	77,637	68,802	+12.8
Net asset value per share	258.81p	229.36p	+12.8
Share price (mid-market)	228.00p	202.00p	+12.9
Discount to net asset value	11.90%	11.93%	
Dividend yield	5.37%	6.06%	

Performance (total return)

	6 months ended 30 September 2016	1 year ended 30 September 2016	3 years ended 30 September 2016	5 years ended 30 September 2016
Net asset value	+15.9%	+16.8%	+27.4%	+95.1%
Share price	+16.4%	+7.6%	+15.1%	+71.3%
FTSE All-Share Index	+12.9%	+16.8%	+21.1%	+68.9%

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

Financial Calendar

27 January 2017	Ordinary shares second interim dividend 2016/17 payable
31 March 2017	3.5% Preference shares half year dividend payable
28 April 2017	Ordinary shares third interim dividend 2016/17 payable
May 2017	Announcement of results for year ending 31 March 2017
June 2017	Annual Report posted to shareholders
11 July 2017	Annual General Meeting (London)
28 July 2017	Ordinary shares final dividend 2016/17 payable

Interim Board Report – Chairman's Statement

Background

Markets have enjoyed a good six months. Oil and other commodity prices increased and this was a significant driver of returns during the early part of the period under review. In general, developed economies continued with their recoveries and a number of emerging markets showed clear signs of exiting from recession, aided by the moves in commodity prices. Importantly, China's economy was also stabilising albeit aided more by fiscal intervention than policy reform. The first quarter GDP reading for the UK showed solid growth of 2%, though inflation remained very weak. Despite the strength of the Dollar and the still subdued environment for spending amongst oil and gas producers, the initially disappointing numbers from the US were subsequently revised upwards. Investors' attention was focussed on the interest rate cycle. An increase appeared likely on both sides of the Atlantic.

By the early summer it was the UK's impending referendum on its membership of the European Union that was influencing investor sentiment. Initial uncertainty surrounding the plebiscite gave way to a belief that the UK would vote to remain. Equities and Sterling strengthened in response. Consequently markets suffered a significant negative reaction as a result of the surprise news that the result was in fact in favour of leaving the EU. However, although this meant that there was material uncertainty regarding the prospects for the UK economy, one immediate outcome was a substantial weakening of the currency. Many UK companies, particularly larger ones, derive the greater proportion of their revenues and profits from overseas and will therefore receive a boost to profitability as a result. This caused the FTSE 100 Index to stage a recovery that meant it ended June above its pre referendum level. The immediate aftermath was characterised by high levels of political change. In the end the rapid replacement of David Cameron as Prime Minister by Theresa May served to reduce the political uncertainty that was worrying investors.

The market's upward path continued throughout the remainder of the period under review, with September marking nine consecutive months of gains, partly driven by the fall in Sterling. One other factor supporting these moves was the action taken by the Bank of England. Having initially bided its time as it sought to understand the full implications of the vote to leave, the Bank then announced a significant package of monetary stimulus to support the domestic economy. It was now very clear that the earlier expectations of domestic interest rate increases had been mistaken and a further period of very low interest rates would be required.

Investment Performance

In the half year ended 30 September 2016, the Company's net asset value per share increased by 12.8% from 229.36p to 258.81p. The total return on net assets, including

dividends paid, was 15.9%, which during the period was an outperformance of our benchmark, the FTSE All-Share Index, which reported a total return of 12.9%. The total return of the Company's share price was 16.4% and the discount was unchanged at 11.9%.

Portfolio Profile

Two new holdings were introduced during the period. **BBA Aviation** provides fixed base operations for private planes, mainly in the US. The business has recently bought an additional portfolio of assets, strengthening its market leading position in an industry where network density brings a competitive advantage. Flight volumes are increasing as the US economy recovers. The business generates solid cash flows that support an attractive yield. **Essentra** manufacture and distribute healthcare and personal goods packaging, specialist cigarette filters and a very broad array of niche specialist components across a number of industries. The low cost but critical nature of the business's products allows them to make attractive margins and these have manifested themselves in growth in the dividend in excess of 15% over the medium term. One holding was exited during the period. **Cobham** is a business involved in the Aerospace and Defence industries. The company's balance sheet had become uncomfortably stretched following the acquisition of Aeroflex. Indeed, subsequent to the disposal from the portfolio they announced a rights issue to seek to repair their finances.

Changes were not made to the investments in the portfolio in anticipation of the outcome of the EU referendum. However, many of the companies that the Manager invests in have broad diversified international revenue streams. Conversely there is less exposure to the more cyclical and domestically orientated areas of the market. These factors were beneficial to performance during the six months under discussion.

Gearing decreased during the period from 24.9% to 22.1%. The primary cause of this has been the increase in net assets since the year end. There has been no significant change to the overall allocations in the portfolio. Equities have moved up slightly and now represent 71% of total assets. The equivalent figure at the year end was 69%. There have been two factors causing this shift. Firstly the Premier Farnell convertible was redeemed in April. Secondly the equity holdings have outperformed the fixed interest portfolio post the Brexit referendum. No new investments were made in preference shares or convertibles during the period.

Investment Income

There have been several pleasing increases in the dividends received during the period. Some companies that received mention in last year's Half Yearly Report have again provided significant uplifts this year. These include; Aveva, Provident

Financial and Wood Group which raised their final payments by 20%, 26% and 10% respectively. Croda, the speciality chemicals company, announced a special dividend. Of course there were companies that performed less well. Having cut its dividend in the 2016 financial year, Standard Chartered then passed it altogether this year. A similar dynamic will be evident with Rolls Royce which halved their interim distribution. Lastly, BHP Billiton's dividend cut resulted in a sizable decrease in the dividend received in the period. The impact should be much more muted in the next six months. Given the weakness of Sterling, foreign exchange has unsurprisingly had a material impact on some of the payments the Company has received. BP, Elementis and Unilever are examples where currencies have helped them to register uplifts of between 15% and 27% to the payouts they made.

Dividends

A first interim dividend of 3.0p per share in respect of the year ending 31 March 2017 was paid on 28 October 2016. The Board declares a second interim dividend of 3.0p per share, payable on 27 January 2017 to shareholders on the register at close of business on 6 January 2017. Subject to unforeseen circumstances, it is proposed to pay a further interim dividend of 3.0p per share prior to the Board deciding on the rate of the final dividend at the time of reviewing the full year results.

The current annual rate of dividend is 12.25p per share, representing a dividend yield of 5.4% based on the share price of 228.0p at 30 September 2016. The Board considers that one of the key attractions of the Company is its high level of income and recognises that, in the current economic environment, there is likely to be a continuing demand for an attractive and reliable level of income. Whilst the Company aims to cover its annual dividend cost with net income, the Board is conscious of the significant revenue reserves, which amounted to 1.3 times the annual dividend cost as at 30 September 2016 after deducting the first and second interim dividends.

Board Composition

Having been a Director since 2007 and Chairman for the past eight years I plan to step down from the Board at the conclusion of the Company's Annual General Meeting in July 2017. This is in line with good corporate governance. It has been agreed that Robert Talbut, who was appointed to the Board in April 2015, will succeed me as Chairman. We also expect to appoint a new Director in the foreseeable future as part of our succession planning.

Outlook

It is not only investors that don't know what the post Brexit landscape will look like, company management teams and consumers are equally unsure. A period of slower activity is

therefore to be expected and some of the economic and confidence surveys that have been released since the vote support this. Companies that have actually traded quite well in the first half of 2016 find themselves having to inject caution into their outlook statements as a result of this uncertainty. However, that does not mean that the long term prospects for the economy have been irretrievably damaged. After initially keeping interest rates on hold the Bank of England responded to signs of a slowdown in the UK economy with interest rates being reduced to 0.25%. A Term Funding Scheme has been created to encourage banks to lend, the existing asset purchase programme for gilts has been increased by £60 billion to £435 billion and a small programme of corporate bond purchases has been introduced. In the meantime the weakness of Sterling is providing a boost to UK plc profitability. Whilst earnings expectations have declined slightly compared to forecasts before the vote, they have not declined by anything like as much as the more negative commentary of the outlook for the economy as a whole would suggest.

Global growth looks set to improve next year aided by an on-going recovery in the US, Russia and Brazil exiting recession and a Chinese economy that increasingly looks to have stabilised, albeit at levels of expansion below those enjoyed previously. However, the risks posed by Brexit, the fragility of the European banking system and US Presidential elections mean that there are significant uncertainties facing investors, companies and consumers.

OPEC has announced that it intends to reduce supply for the first time since 2008. The news has been positive for oil producers and those businesses with direct and indirect exposure to oil and gas production. The oil price has bounced strongly on the back of the news. However, history shows that compliance with quotas is often weak and it will be sometime before we know if this will genuinely lead to a structural re-balancing between supply and demand. Sterling has weakened as markets have focussed on the risks of a so called hard Brexit. It remains much too early to tell what the ramifications of leaving the EU will be though it is notable that as more data has become available some of the more downbeat commentators have been forced to shift to a less extreme position. In the meantime Sterling weakness is being regarded as a positive for the profitability of many UK companies, especially larger ones and this has benefited equity markets. That holds true to a point but devaluing the currency is not a panacea and brings with it the risk of future inflation at a time when the availability of the tools conventionally used to control rising prices is limited.

Anthony B Davidson

Chairman

17 November 2016

Interim Board Report – Other Matters

Directors' Responsibility Statement

The Directors are responsible for preparing the Half Yearly Financial Report in accordance with applicable law and regulations. The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements within the Half Yearly Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting'; and
- the Interim Board Report (constituting the Interim Management Report) includes a fair review of the information required by rules 4.2.7R of the Disclosure and Transparency Rules (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year) and 4.2.8R (being related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position of the Company during that period; and any changes in the related party transactions described in the last Annual Report that could so do).

Principal Risks and Uncertainties

The Board regularly reviews the principal risks and uncertainties faced by the Company together with the mitigating actions it has established to manage the risks. These are set out within the Strategic Report contained within the Annual Report for the year ended 31 March 2016 and comprise the following risk headings:

- Investment management
- Failure to meet the dividend growth objective
- Widening of discount
- Financial
- Gearing
- Regulatory
- Operational

In addition to the risks outlined above, the Board considers that the United Kingdom's decision in the referendum held on 23 June 2016 to leave the European Union may affect the Company's risk profile by introducing potentially significant new uncertainties and instability in financial markets as the United Kingdom negotiates the terms of its exit from the EU. These uncertainties could have a material effect on the Company's business, financial condition and operations. Other than this additional risk and the matters highlighted in the Outlook paragraph of the Chairman's Statement on page 3, the Company's principal risks and uncertainties have not changed materially since the date of the Annual Report and are not expected to change materially for the remaining six months of the Company's financial year.

Going Concern

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. Borrowings of £20 million are committed to the Company until 19 December 2017. The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of this Report. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements.

On behalf of the Board

Anthony B Davidson
Chairman
17 November 2016

Investment Portfolio – Ordinary Shares

As at 30 September 2016

Company	Market value £'000	Total portfolio %
Aberdeen Smaller Companies Income Trust	6,210	6.6
Royal Dutch Shell	3,205	3.4
British American Tobacco	3,081	3.3
AstraZeneca	2,927	3.1
GlaxoSmithKline	2,892	3.0
HSBC Holdings	2,711	2.9
Unilever	2,704	2.9
BHP Billiton	2,209	2.3
Vodafone	2,176	2.3
Chesnara	2,155	2.3
Ten largest investments	30,270	32.1
Prudential	2,145	2.3
BP	1,989	2.1
Sage Group	1,874	2.0
Compass	1,871	2.0
Provident Financial	1,850	2.0
Schroders	1,834	1.9
Close Brothers	1,767	1.9
National Grid	1,627	1.7
Standard Chartered	1,609	1.7
Pearson	1,551	1.6
Twenty largest investments	48,387	51.3
Inmarsat	1,472	1.6
Wood Group (John)	1,451	1.5
Imperial Brands	1,391	1.5
BBA Aviation	1,339	1.4
Centrica	1,326	1.4
Experian	1,204	1.3
Croda International	1,110	1.2
Weir Group	1,011	1.1
GKN	1,003	1.1
Rolls Royce	994	1.0
Thirty largest investments	60,688	64.4
Tesco	917	1.0
Elementis	896	1.0
Essentra	884	0.9
Rotork	866	0.9
Inchcape	836	0.9
Aveva	739	0.8
Ultra Electronic Holdings	691	0.7
Capita	690	0.7
Associated British Foods	494	0.5
Hansteen	483	0.5
Forty largest investments	68,184	72.3
Manx Telecom	114	0.2
Total Ordinary shares	68,298	72.5

Investment Portfolio – Other Investments

As at 30 September 2016

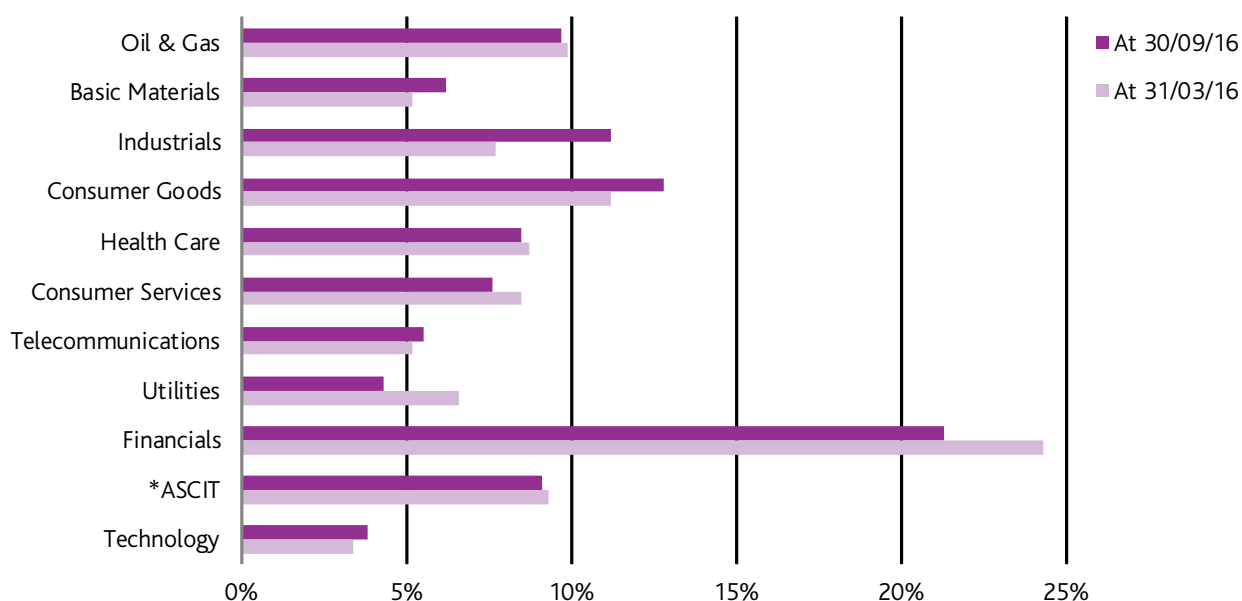
Company	Market value £'000	Total portfolio %
Convertibles		
Balfour Beatty Cum Conv 10.75%	560	0.6
Total Convertibles	560	0.6
Preference shares		
Ecclesiastical Insurance Office 8 5/8%	5,978	6.3
Royal & Sun Alliance 7 3/8%	5,612	5.9
General Accident 7.875%	4,790	5.1
Santander 10.375%	4,551	4.8
Standard Chartered 8.25%	3,558	3.8
R.E.A. Holdings 9%	907	1.0
Total Preference shares	25,396	26.9
Total other investments	25,956	27.5
Total investments	94,254	100.0

All investments are listed on the London Stock Exchange (Sterling based).

Distribution of Assets and Liabilities

	Valuation at		Movement during the period				Valuation at	
	31 March 2016		Purchases	Sales	Other	Gains	30 September 2016	
	£'000	%	£'000	£'000	£'000	£'000	£'000	%
Listed investments								
Ordinary shares	60,717	88.2	5,468	(4,313)	–	6,426	68,298	88.0
Convertibles	1,330	1.9	–	(826)	(8)	64	560	0.7
Preference shares	23,102	33.6	–	–	(41)	2,335	25,396	32.7
Total investments	85,149	123.7	5,468	(5,139)	(49)	8,825	94,254	121.4
Current assets	2,877	4.2					2,606	3.4
Current liabilities	(9,224)	(13.4)					(9,223)	(11.9)
Non-current liabilities	(10,000)	(14.5)					(10,000)	(12.9)
Net assets	68,802	100.0					77,637	100.0
Net asset value per Ordinary share	229.36p						258.81p	

Analysis of Listed Equity Portfolio



*The Company's investment in Aberdeen Smaller Companies Income Trust PLC ("ASCIT") is classified under "Financials" for FTSE classification purposes.

Condensed Statement of Comprehensive Income

	Note	30 September 2016 (unaudited)			30 September 2015 (unaudited)			31 March 2016 (audited)		
		Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gains/(losses) on investments at fair value		–	8,822	8,822	–	(7,552)	(7,552)	–	(8,533)	(8,533)
Currency gains		–	2	2	–	–	–	–	–	–
Investment income										
Dividend income		1,928	–	1,928	1,694	–	1,694	3,422	–	3,422
Interest income/(expense)		287	(49)	238	285	(47)	238	588	(93)	495
Stock dividends		171	–	171	230	–	230	153	–	153
Traded option premiums		91	–	91	101	–	101	186	–	186
Money market interest		3	–	3	4	–	4	7	–	7
Underwriting commission		–	–	–	–	–	–	5	–	5
		2,480	8,775	11,255	2,314	(7,599)	(5,285)	4,361	(8,626)	(4,265)
Expenses										
Management fee		(97)	(97)	(194)	(98)	(98)	(196)	(190)	(190)	(380)
Other administrative expenses		(189)	–	(189)	(184)	–	(184)	(370)	–	(370)
Finance costs of borrowings		(84)	(84)	(168)	(84)	(84)	(168)	(169)	(169)	(338)
		(370)	(181)	(551)	(366)	(182)	(548)	(729)	(359)	(1,088)
Profit/(loss) before taxation		2,110	8,594	10,704	1,948	(7,781)	(5,833)	3,632	(8,985)	(5,353)
Taxation	2	(3)	3	–	(8)	8	–	(15)	15	–
Profit/(loss) attributable to equity holders	4	2,107	8,597	10,704	1,940	(7,773)	(5,833)	3,617	(8,970)	(5,353)
Earnings per Ordinary share (pence)	4	7.02	28.66	35.68	6.47	(25.91)	(19.44)	12.06	(29.90)	(17.84)

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

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

All items in the above statement derive from continuing operations.

Condensed Balance Sheet

		As at 30 September 2016 (unaudited) £'000	As at 30 September 2015 (unaudited) £'000	As at 31 March 2016 (audited) £'000
Note				
Non-current assets				
	Ordinary shares	68,298	61,911	60,717
	Convertibles	560	1,324	1,330
	Other fixed interest	25,396	23,395	23,102
	Securities at fair value	94,254	86,630	85,149
Current assets				
	Trade and other receivables	20	21	19
	Accrued income and prepayments	765	760	985
	Cash and cash equivalents	1,821	2,107	1,873
		2,606	2,888	2,877
	Total assets	96,860	89,518	88,026
Creditors: amounts falling due within one year				
	Trade and other payables	(223)	(395)	(224)
	Short-term borrowings	(9,000)	(9,000)	(9,000)
		(9,223)	(9,395)	(9,224)
	Net current liabilities	(6,617)	(6,507)	(6,347)
	Total assets less current liabilities	87,637	80,123	78,802
Non-current liabilities				
	Long-term borrowings	(10,000)	(10,000)	(10,000)
	Net assets	77,637	70,123	68,802
Share capital and reserves				
	Called-up share capital	15,049	15,049	15,049
	Share premium account	19,308	19,308	19,308
	Capital reserve	36,789	29,389	28,192
	Revenue reserve	6,491	6,377	6,253
	Equity shareholders' funds	77,637	70,123	68,802
	Net asset value per Ordinary share (pence)	258.81	233.76	229.36

Condensed Statement of Changes in Equity

Six months ended 30 September 2016 (unaudited)

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained revenue reserve £'000	Total £'000
As at 31 March 2016	15,049	19,308	28,192	6,253	68,802
Revenue profit for the period	–	–	–	2,107	2,107
Capital profit for the period	–	–	8,597	–	8,597
Equity dividends	–	–	–	(1,869)	(1,869)
As at 30 September 2016	15,049	19,308	36,789	6,491	77,637

Six months ended 30 September 2015 (unaudited)

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained revenue reserve £'000	Total £'000
As at 31 March 2015	15,049	19,308	37,162	6,313	77,832
Revenue profit for the period	–	–	–	1,940	1,940
Capital loss for the period	–	–	(7,773)	–	(7,773)
Equity dividends	–	–	–	(1,876)	(1,876)
As at 30 September 2015	15,049	19,308	29,389	6,377	70,123

Year ended 31 March 2016 (audited)

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained revenue reserve £'000	Total £'000
As at 31 March 2015	15,049	19,308	37,162	6,313	77,832
Revenue profit for the year	–	–	–	3,617	3,617
Capital loss for the year	–	–	(8,970)	–	(8,970)
Equity dividends	–	–	–	(3,677)	(3,677)
As at 31 March 2016	15,049	19,308	28,192	6,253	68,802

Condensed Cash Flow Statement

	Six months ended 30 September 2016 (unaudited) £'000	Six months ended 30 September 2015 (unaudited) £'000	Year ended 31 March 2016 (audited) £'000
Net cash inflow from operating activities			
Investment income received	2,222	2,262	3,907
Stock dividends	171	97	153
Traded option premiums	80	114	194
Money market interest received	3	5	7
Underwriting commission	–	–	5
Management fee paid	(185)	(203)	(390)
Other cash expenses	(151)	(202)	(391)
Cash generated from operations	2,140	2,073	3,485
Interest paid	(168)	(171)	(342)
Taxation	–	–	(1)
Net cash inflow from operating activities	1,972	1,902	3,142
Cash flows from investing activities			
Purchases of investments	(5,468)	(3,746)	(6,526)
Sales of investments	5,313	1,925	5,032
Net cash outflow from investing activities	(155)	(1,821)	(1,494)
Cash flows from financing activities			
Equity dividends paid	(1,869)	(1,876)	(3,677)
Net cash outflow from financing activities	(1,869)	(1,876)	(3,677)
Net decrease in cash and cash equivalents	(52)	(1,795)	(2,029)
Reconciliation of net cash flow to movements in cash and cash equivalents			
Decrease in cash and cash equivalents as above	(52)	(1,795)	(2,029)
Net cash and cash equivalents at start of period	(7,127)	(5,098)	(5,098)
Cash and cash equivalents at end of period	(7,179)	(6,893)	(7,127)
Net cash and cash equivalents comprise:			
Cash and cash equivalents	1,821	2,107	1,873
Short-term borrowings	(9,000)	(9,000)	(9,000)
	(7,179)	(6,893)	(7,127)

Notes to the Financial Statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 34 'Interim Financial Reporting', as adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC). They have also been prepared using the same accounting policies applied for the year ended 31 March 2016 financial statements, which received an unqualified audit report.

The financial statements have been prepared on a going concern basis. In accordance with the Financial Reporting Council's guidance on 'Going Concern and Liquidity Risk' the Directors have undertaken a review of the Company's assets which primarily consist of a diverse portfolio of listed equity shares which, in most circumstances, are realisable within a very short timescale.

During the period the Company adopted the following amendments to standards:

- IAS 1 'Presentation of Financial Statements – Amendment for Disclosure Initiative' (effective for accounting periods beginning on or after 1 January 2016) covering (i) clarification on materiality (ii) permitting disaggregation of certain items in statements of profit or loss, other comprehensive income and balance sheet (iii) structure of the notes to the financial statements (iv) accounting policies disclosure that are significant and (v) equity accounted items in other comprehensive income.
- Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for accounting periods beginning on or after 1 January 2016) covering (i) IAS 34 'Interim Financial Reporting' clarifying what is disclosed in the notes if not disclosed elsewhere in the interim report and (ii) IFRS 7 'Financial instruments: Disclosures' regarding the applicability of the amendments to condensed interim financial statements.

2. Taxation

The taxation expense reflected in the Condensed Statement of Comprehensive Income is calculated at a rate of 20%, which is based on management's best estimate of the weighted average annual corporation tax rate expected for the full financial year.

3. Dividends

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

	Six months ended 30 September 2016 £'000	Six months ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
Revenue	2,107	1,940	3,617
Dividends declared	(1,800) ^A	(1,800) ^B	(3,675) ^C
	307	140	(58)

^A Dividends declared relate to first two interim dividends (both 3.00p each) in respect of the financial year 2016/17.

^B Dividends declared relate to first two interim dividends (both 3.00p each) in respect of the financial year 2015/16.

^C First three interim dividends (each 3.00p) and the final dividend (3.25p) declared in respect of the financial year 2015/16.

	Six months ended 30 September 2016 £'000	Six months ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
4. Return and net asset value per share			
Returns are based on the following figures:			
Revenue return	2,107	1,940	3,617
Capital return	8,597	(7,773)	(8,970)
Total return	10,704	(5,833)	(5,353)
Weighted average number of Ordinary shares in issue	29,997,580	29,997,580	29,997,580

The net asset value per Ordinary share is based on net assets attributable to Ordinary shareholders of £77,637,000 (30 September 2015 – £70,123,000; 31 March 2016 – £68,802,000) and on 29,997,580 (30 September 2015 – 29,997,580; 31 March 2016 – 29,997,580) Ordinary shares in issue at the period end.

5. Capital reserve

The capital reserve reflected in the Balance Sheet at 30 September 2016 includes gains of £16,409,000 (30 September 2015 – gains of £10,071,000; 31 March 2016 – gains of £8,501,000) which relate to the revaluation of investments held at the reporting date.

6. Transaction costs

During the period expenses were incurred in acquiring or disposing of investments classified as fair value though profit or loss. These have been expensed through capital and are included within gains/(losses) on investments at fair value in the Condensed Statement of Comprehensive Income. The total costs were as follows:

	Six months ended 30 September 2016 £'000	Six months ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
Purchases	29	16	26
Sales	3	2	4
	32	18	30

7. Transactions with the Manager

The Company has an agreement with Aberdeen Fund Managers Limited ("AFML") for the provision of management, secretarial, accounting and administration services and for the carrying out of promotional activities in relation to the Company.

The management fee is based on 0.45% per annum up to £100 million and 0.40% per annum over £100 million, by reference to the net assets of the Company and any borrowings with a maturity of one year or more, and excluding commonly managed funds, calculated monthly and paid quarterly. The fee is allocated 50% to revenue and 50% to capital. The agreement is terminable on not less than six months' notice. The total of the fees paid and payable during the period to 30 September 2016 was £194,000 (30 September 2015 – £196,000; 31 March 2016 – £380,000) and the balance due to AFML at the period end was £100,000 (30 September 2015 – £94,000; 31 March 2016 – £91,000). The Company held an interest in a commonly managed fund Aberdeen Smaller Companies Income Trust PLC in the portfolio during the period to 30 September 2016 (30 September 2015 and 31 March 2016 – same). The value attributable to this holding is excluded from the calculation of the management fee payable by the Company.

Notes to the Financial Statements *continued*

The total fees paid and payable under the management agreement in relation to promotional activities were £43,000 (30 September 2015 – £44,000; 31 March 2016 – £89,000) and the balance due to AFML at the period end was £20,000 (30 September 2015 – £23,000; 31 March 2016 – £23,000). The Company's management agreement with AFML also provides for the provision of company secretarial and administration services to the Company; no separate fee is charged to the Company in respect of these services, which have been delegated to Aberdeen Asset Management PLC.

8. Segmental information

For management purposes, the Company is organised into one main operating segment, which invests in equity securities and debt instruments. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

9. Fair value hierarchy

IFRS 13 'Fair Value Measurement' requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the Condensed Balance Sheet are grouped into the fair value hierarchy as follows:

		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 30 September 2016	Note				
Financial assets at fair value through profit or loss					
Quoted investments	a)	94,254	–	–	94,254
Financial liabilities at fair value through profit or loss					
Derivatives	b)	(22)	–	–	(22)
Net fair value		94,232	–	–	94,232

		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 30 September 2015	Note				
Financial assets at fair value through profit or loss					
Quoted investments	a)	86,630	–	–	86,630
Financial liabilities at fair value through profit or loss					
Derivatives	b)	(29)	(56)	–	(85)
Net fair value		86,601	(56)	–	86,545

As at 31 March 2016	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted investments	a)	85,149	–	–	85,149
Financial liabilities at fair value through profit or loss					
Derivatives	b)	(18)	(1)	–	(19)
Net fair value		85,131	(1)	–	85,130

a) Quoted investments

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

b) Derivatives

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

The fair value of the Company's investments in Over the Counter Options has been determined using observable market inputs other than quoted prices included within Level 2.

10. The financial information contained in this Half Yearly Financial Report does not constitute statutory accounts as defined in Sections 434 – 436 of the Companies Act 2006. The financial information for the six months ended 30 September 2016 and 30 September 2015 has not been reviewed or audited by the Company's independent auditor.

The information for the year ended 31 March 2016 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the independent auditor on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006.

11. This Half Yearly Financial Report was approved by the Board on 17 November 2016.

Investor Information

AIFMD

The Company has appointed Aberdeen Fund Managers Limited as its alternative investment fund manager and BNP Paribas Securities Services, London Branch as its depositary under the AIFMD. Details of the leverage and risk policies which the Company is required to have in place under the AIFMD are published in the Company's PIDD which can be found on its website: shiresincome.co.uk.

Pre-investment Disclosure Document ("PIDD")

The AIFMD requires Aberdeen Fund Managers Limited, as the alternative investment fund manager of Shires Income PLC, to make available to investors certain information prior to such investors' investment in the Company. The Company's PIDD is available for viewing on its website.

Website

Further information on the Company can be found on its own dedicated website: shiresincome.co.uk. This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports.

Investor Warning: Be alert to share fraud and boiler room scams

The Aberdeen Group has been contacted by investors informing us that they have received telephone calls and emails from people who have offered to buy their investment trust shares, purporting to work for Aberdeen Asset Management or for third party firms. The Aberdeen Group has also been notified of emails claiming that certain investment companies under our management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from you is required to release the supposed payment for your shares. These callers/senders do not work for the Aberdeen Group and any third party making such offers/claims has no link with the Aberdeen Group.

The Aberdeen Group does not 'cold-call' investors in this way. If you have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact our Customer Services Department.

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams: fca.org.uk/consumers/scams

Keeping You Informed

For internet users, detailed data on the Company, including price, performance information and a monthly fact sheet is available from the Company's website and the TrustNet

website (trustnet.com). Alternatively you can call 0808 500 0040 (free when dialling from a UK landline) for investment trust information.

If you have any questions about your Company, the Manager or performance, please telephone the Aberdeen Customer Services Department (direct private investors) on 0808 500 0040. Alternatively, internet users may email Aberdeen at inv.trusts@aberdeen-asset.com or write to Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB.

Shareholder Enquiries

In the event of queries regarding their holdings of shares, lost certificates dividend payments, registered details, etc shareholders holding their shares in the Company directly should contact the registrars, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by telephoning on 0371 384 2508. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls may be recorded and monitored randomly for security and training purposes.

Changes of address must be notified to the registrars in writing. Any general enquiries about the Company should be directed to the Company Secretary, Shires Income PLC, 40 Princes Street, Edinburgh EH2 2BY or by emailing company.secretary@aberdeen-asset.com.

Direct Investment

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

Aberdeen's Investment Plan for Children

Aberdeen runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time.

In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Aberdeen's Investment Trust Share Plan

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

Stocks and Shares ISA

An investment of up to £15,240 can be made in the 2016/2017 tax year.

The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Investors have full voting and other rights of share ownership. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

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

Dividend Tax Allowance

From 6 April 2016, dividend tax credits have been replaced by an annual £5,000 tax-free allowance on dividend income. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

Literature Request Service

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

Telephone: 0808 500 4000

Website: invtrusts.co.uk/en/investmenttrusts/literature-library

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

Aberdeen Investment Trust Administration

PO Box 11020

Chelmsford

Essex CM99 2DB

Telephone: 0808 500 0040

(free when dialling from a UK landline)

Terms and conditions for the Aberdeen managed savings products can also be found under the literature section of invtrusts.co.uk.

Online Dealing details

Investor information

There are a number of other ways in which you can buy and hold shares in this investment trust.

Online dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines, include:

- AJ Bell You Invest
- Alliance Trust Savings
- Barclays Stockbrokers
- Charles Stanley Direct
- Halifax Share Dealing
- Hargreave Hale
- Hargreaves Lansdown
- Idealing
- Interactive Investor
- Selftrade Equiniti
- The Share Centre
- Stocktrade
- TD Direct

Discretionary private client stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit the Wealth Management Association at: thewma.co.uk.

Financial advisers

To find an adviser on investment trusts, visit: unbiased.co.uk.

Regulation of stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:
Tel: 0800 111 6768 or at fca.org.uk/firms/systems-reporting/register/search
Email: register@fca.org.uk

Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking a high level of income, together with growth of both income and capital from a portfolio substantially invested in UK equities, and who understand and are willing to accept the risks of exposure to equities. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs, and intends to continue to do so for the foreseeable future, in order that its shares can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments ("NMPIs").

The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream pooled investment products because they are shares in an investment trust.

Note

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

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

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

The information on pages 16 to 18 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority.

Corporate Information

Directors

Anthony B Davidson (Chairman)
Marian Glen
Andrew S Robson
Robert Talbut

Registered Office

Bow Bells House
1 Bread Street
London EC4M 9HH

Company Secretary

Aberdeen Asset Management PLC
40 Princes Street
Edinburgh EH2 2BY

Alternative Investment Fund Manager

Aberdeen Fund Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH

Investment Manager

Aberdeen Asset Managers Limited
40 Princes Street
Edinburgh EH2 2BY

Customer Services Department and Aberdeen Children's Plan, Share Plan and ISA enquiries

Aberdeen Investment Trusts
PO Box 11020
Chelmsford
Essex CM99 2DB

Freephone: 0808 500 0040
(open Monday to Friday, 9.00 a.m. – 5.00 p.m.)
Email: inv.trusts@aberdeen-asset.com

Company Registration Number

00386561 (England & Wales)

Website

shiresincome.co.uk

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder Helpline: 0371 384 2508*

(*Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday excluding bank holidays. Charges for calling telephone numbers starting with '03' are determined by the caller's service provider.)

Overseas helpline number: +44 (0)121 415 7047

Depository

BNP Paribas Securities Services, London Branch
10 Harewood Avenue
London NW1 6AA

Stockbroker

JPMorgan Cazenove
25 Bank Street
London E14 5JP

Independent Auditor

Ernst & Young LLP
10 George Street
Edinburgh EH2 2DZ

Solicitors

Maclay Murray & Spens LLP
One London Wall
London EC2Y 5AB

United States Internal Revenue Service FATCA Registration Number (GIIN)

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