Shaftesbury interim report 2005


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Financial highlights 2005

		Six months ended		Year ended
		31.3.2005	31.3.2004	30.9.2004
Net property revenue	£'000	**21,261**	19,618	40,178
Adjusted profit before taxation*	£'000	**8,003**	7,550	14,708
Profit on ordinary activities before taxation	£'000	**7,255**	7,550	15,324
Profit on ordinary activities after taxation	£'000	**4,980**	5,225	10,804
Adjusted basic earnings per share before taxation*	pence	**6.06**	5.73	11.15
Basic earnings per share after taxation	pence	**3.77**	3.96	8.19
Interim dividend per share	pence	**1.70**	1.513	1.513
Final dividend per share	pence	**-**	-	2.90
Property assets at book value	£'000	**833,432****	732,170**	825,580
Shareholders' funds	£'000	**467,794****	388,507**	464,645
Basic net asset value per share	pence	**354****	294**	352

* Adjusted to exclude exceptional costs and property disposal - see Note 9.
** Based on market value of investment properties at the previous year end - see Note 1.

Financial calendar

Results

Interim results announced	24th May 2005
Interim report posted to shareholders and debenture stockholders	3rd June 2005
2005 Annual results announced	December 2005

Dividends and interest

Declared interim dividend:	
Ex-dividend	1st June 2005
Record date	3rd June 2005
Payment date	24th June 2005
Debenture stock interest payment date	30th September 2005

Chairman's statement

I am pleased to report an increase in underlying profits (profit on ordinary activities adjusted to exclude exceptional costs and property disposals) for the six months to 31st March 2005 to £8.00 million, an increase of £0.45 million or 6% over the profit of £7.55 million reported for the same period last year.

After a surplus on a property disposal of £0.10 million and exceptional costs incurred in restructuring the Group's activities into four village subsidiaries in October 2004 (£0.29 million) and a loss realised on the purchase of £2.1 million of debenture stock in March 2005 (£0.55 million), profit on ordinary activities before taxation amounted to £7.26 million (2004 - £7.55 million).

After provision for current and deferred taxation of £2.28 million (2004 - £2.32 million), profit after tax amounted to £4.98 million (2004 - £5.23 million).

Your Directors have declared an interim dividend of 1.70 pence per Ordinary share (2004 – 1.513 pence), an increase of 12.4%, which will be paid on 24th June 2005 to shareholders on the register at 3rd June 2005.

Strategy

Shaftesbury's clearly defined strategy is to invest only in the liveliest districts in the centre of London's West End.

London is the world's top city destination for overseas visitors. It is Europe's largest city and has a rising and multi-cultural population. London's West End offers an unrivalled cluster of theatres, cinemas, world class galleries, historic sites, museums, shops and restaurants which together provide a unique experience for Londoners and domestic and overseas tourists. Our three principal villages of Carnaby, Chinatown and Seven Dials Covent Garden have become destinations in their own right and together they contribute much to the West End's many and diverse attractions.

London generally is now benefiting from much increased investment in its infrastructure. Greater funding for street improvements, combined with a reduction in weekday traffic, is enhancing the environment for visitors. Investment in public transport is providing better access to the West End particularly in the evenings and during weekends.

Our investments offer significant opportunities to unlock potential, generate higher rental income and increase capital values through careful and co-ordinated estate management. Our strategy is to foster and promote the colourful palette of uses which is the essence of the West End's vibrancy.

We have completed and let most of the shops, restaurants and offices which were refurbished last year. Lettings of commercial space in the six months to 31st March 2005 totalled £2.87 million per annum. Whilst the current rental value of our un-let commercial property is £3.00 million per annum, our emphasis in the first half of 2005 has been to prepare and start new refurbishments which, with an estimated rental value of £1.45 million, represent nearly 50% of these un-let properties.

In contrast to the widely reported concerns regarding a slowdown in consumer spending, demand for our shops and restaurants remains buoyant. At 30th September 2004 these uses accounted for 69% of our income and current lettings are achieving rents higher than those reported at our last year end. At 31st March 2005 the estimated rental value of vacant shop and restaurant space was £1.60 million per annum. This was divided between units under offer (£0.50 million), under refurbishment (£0.50 million) and available to let (£0.60 million). The latter included ten shops and one restaurant which, with the exception of two shops have now been either let or are under offer.

The increase in office lettings noted in December has not continued into 2005. Whilst offices represent only 27% of our income, the estimated rental value of our vacant space at 31st March 2005 was £1.40 million per annum. Of this, £0.45 million (19,000 sq.ft.) was available to let, of which 20% was under offer. The balance of £0.95 million per annum (27,000 sq. ft.) is currently under refurbishment or reconstruction and is due for completion within the next twelve months.

Chairman's statement continued

Our experience is that the market for offices is more cyclical than for any of our other uses. Offices are prone to periods of oversupply and the trend towards shorter leases has increased risks for the landlord. Consequently, with the added flexibility of smaller buildings, we continue to take every opportunity to convert offices to shops, restaurants and other leisure uses as well as to residential. Traditionally supply of these uses within the West End is limited, demand consistently stronger and obsolescence much reduced. Currently we have seven such conversions in hand and we expect this trend to continue.

In addition in October 2004 we sold 9,000 sq. ft. of unrefurbished upper floor offices in Covent Garden to a residential developer realising proceeds of £3.37 million producing a small surplus over the year end valuation.

Carnaby

Carnaby represents 43% by value of our property assets and includes almost 50% of our shops and 60% of our offices.

In May 2005 we agreed the purchase of Lasenby House at £14.10 million. This predominantly freehold building, which currently comprises 25,000 sq.ft. of fully let offices, fronts Kingly Street and Little Marlborough Street and adjoins seven of our shops on Fouberts Place and Carnaby Street. We see a number of interesting opportunities for value enhancement in the medium term.

Carnaby is now established with both retailers and shoppers as the leading location in the West End for sports and fashion wear, particularly for the launch of new concepts and brands. Careful and targeted promotion has encouraged many overseas retailers to choose Carnaby as their preferred location to launch in the UK.

Our new projects for this year and next are focussed in two very distinct areas. Having secured vacant possession of a number of shops and cafes in Broadwick Street between Marshall Street and Carnaby Street, we plan, over the next 18 months, to reconstruct and extend those units and then to carry out environmental enhancements so that for the first time this area becomes fully incorporated within the Carnaby village. The initial phase to extend the shops and offices at the corner of Carnaby Street is under way. The first shops are expected to be available in early 2006.

In addition we are now refurbishing 25,000 sq.ft. of offices principally fronting Kingly Street and Beak Street, which have become vacant following completion of our retail projects on the lower floors. These office schemes represent over 90% of the Group's office refurbishments.

We have always viewed physical regeneration as only the first and most costly phase of our investment in Carnaby village. Now, through pro-active estate management, we are stimulating changes to tenant mix and the range of brands available to the shopper. In 2006 we will begin to see the benefits from the first rent reviews this year of the larger shops we created in the early phases of our regeneration.

Covent Garden

Covent Garden represents 29% by value of our portfolio. We have successfully completed and let our recent retail refurbishments. Our largest project this year is to provide support and finance for an important initiative by Camden Council and The Seven Dials Monument Charity to up-grade the whole of Monmouth Street through widening of pavements, resurfacing the street with raised tables for pedestrian access and a new street lighting scheme. This will greatly enhance the local environment and improve the flow and numbers of visitors attracted to the area.

We continue to explore in detail potentially interesting opportunities for a larger scheme centred on our Wellington House freeholds with a view to crystallising our plans during this year and commencing work in 2006. We have obtained further planning consents fronting both Mercer Street and Upper St Martin's Lane to increase retail areas by 4,300 sq.ft. and create an additional 20 flats.

Chairman's statement continued

Chinatown

Chinatown represents 26% by value of our assets and includes 43% of our restaurants.

Our restaurant project at 48 Gerrard Street is now fully let at above our budgets, reflecting the return of confidence by operators in the area.

In co-operation with Westminster City Council, we are making good progress towards implementing the improvements envisaged in the Chinatown Action Area Plan of 2003. Westminster City Council is now taking a welcome initiative to prepare detailed designs for street improvements to Gerrard Street and Lisle Street. These should greatly enhance access and the environment for visitors to Chinatown. We have also been granted further planning consents to extend and modernise parts of our Estate. These include an extension to a prominent restaurant at the corner of Gerrard Street and Macclesfield Street and also consent to create an entirely new shopping courtyard in Horse and Dolphin Yard which until now has been a service area. This scheme will also enable us to open access into neighbouring streets which in turn will offer further opportunities to improve our adjoining properties both in Gerrard Street and Shaftesbury Avenue.

Finance

Reflecting the Board's active and flexible policy on finance, in March 2005 we refinanced part of the Group's long term debenture debt from existing resources. The purchase on beneficial terms of £2.10 million of debenture stock at a cost of £2.74 million gave rise to a book loss of £0.55 million before tax relief but will allow us to benefit from lower interest rates in the future.

In May 2005 we purchased a further £10.26 million of debenture stock at a cost of £13.94 million. This will result in a book loss in the second half of the year of £3.21 million before tax relief.

The Board will consider further refinancing of its debenture debt if both the terms of purchase and the cost of alternative finance offer a clear long term benefit to the Group.

We continue to monitor developments in the Government's proposals for tax-efficient vehicles for property ownership although it remains unclear at present the level of charges that would be levied on companies wishing to take advantage of any new tax structure. The restructuring of our portfolio into four village subsidiaries completed in October 2004 will provide us with greater flexibility for the future development of our business and in considering future ownership structures.

Board Appointment

I am pleased to welcome Gordon McQueen to the Board as a non-executive Director. Gordon was formerly finance director of Bank of Scotland until its merger with Halifax, when he assumed responsibility for the banks' combined treasury operations until his retirement in 2003. His financial and banking experience will be a great advantage to the Board as structures for property ownerships continue to undergo change and development. Gordon has now assumed chairmanship of the Audit Committee and will serve on the Remuneration and Nomination Committees.

Outlook

Although the occupational market for offices remains subdued, we are encouraged by the continuing strong demand we are seeing for our shops and restaurants. This buoyancy is underpinned by the growing numbers of visitors to the West End's many and varied attractions.

In addition to our recent purchases we have identified a number of interesting opportunities to add to our villages. Investment demand, particularly in our locations, continues to be strong and, if maintained, will clearly benefit the valuation of our properties at the year end. We are confident that over the long term the value our portfolio, with its exceptionally broad mix of uses, is underwritten by its ability to continue to deliver rental growth.

P John Manser
Chairman
24th May 2005


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Unaudited Group profit and loss account

for the six months ended 31st March 2005

		Note	Six months ended 31.3.2005 £'000	Six months ended 31.3.2004 £'000	Year ended 30.9.2004 £'000
Turnover		2	**26,156**	23,823	48,707
Rents payable			**(16)**	(16)	(31)
Other property charges		3	**(4,879)**	(4,189)	(8,498)
Net Property Revenue			**21,261**	19,618	40,178
Administrative expenses			**(1,868)**	(1,720)	(4,375)
Exceptional administrative expenses		4	**(292)**	-	-
Operating Profit			**19,101**	17,898	35,803
Surplus on disposal of investment property		5	**93**	-	616
Profit Before Interest and Taxation			**19,194**	17,898	36,419
Net interest payable			**(11,390)**	(10,348)	(21,095)
Loss on purchase of debenture stock		6	**(549)**	-	-
Profit on Ordinary Activities Before Taxation			**7,255**	7,550	15,324
Taxation		7	**(2,275)**	(2,325)	(4,520)
Profit on Ordinary Activities After Taxation			**4,980**	5,225	10,804
Dividends		8	**(2,240)**	(1,996)	(5,816)
Retained Profit for the Period		14	**2,740**	3,229	4,988
Earnings Per Ordinary Share based on:		9			
Adjusted profit before taxation	- basic		**6.06p**	5.73p	11.15p
	- diluted		**6.05p**	5.72p	11.13p
Profit before taxation	- basic		**5.49p**	5.73p	11.62p
	- diluted		**5.48p**	5.72p	11.60p
Profit after taxation	- basic		**3.77p**	3.96p	8.19p
	- diluted		**3.76p**	3.96p	8.18p

All operations relate to continuing activities.

Abridged unaudited Group balance sheet

as at 31st March 2005

	Note	31.3.2005 £'000	31.3.2004 £'000	30.9.2004 £'000
Fixed Assets				
Tangible assets				
Freehold investment properties	*10*	**833,432**	732,170	825,580
Premises, equipment and vehicles		**281**	247	296
		833,713	732,417	825,876
Current Assets				
Debtors	*11*	**11,635**	9,411	13,040
Creditors falling due within one year	*12*	**(27,760)**	(21,778)	(26,794)
Net Current Liabilities		**(16,125)**	(12,367)	(13,754)
Total Assets Less Current Liabilities		**817,588**	720,050	812,122
Creditors falling due after more than one year				
Borrowings	*13*	**(345,324)**	(327,393)	(343,282)
Provisions for liabilities and charges				
Deferred taxation		**(4,470)**	(4,150)	(4,195)
		467,794	388,507	464,645
Share Capital and Reserves	*14*	**467,794**	388,507	464,645

Abridged unaudited group cash flow statement

for the six months ended 31st March 2005

	Note	31.3.2005 £'000	31.3.2004 £'000	30.9.2004 £'000
Net Cash Inflow from Operating Activities	*15*	**20,902**	18,372	34,135
Returns on Investments and Servicing of Finance				
Interest received		**17**	21	50
Interest paid		**(10,606)**	(11,291)	(22,016)
Bank loan arrangment costs		**(102)**	(120)	(122)
Net cash outflow		**(10,691)**	(11,390)	(22,088)
Taxation				
Corporation tax paid		**(2,012)**	(1,281)	(3,282)
Capital Expenditure and Financial Investment				
Acquisition of investment properties		**(4,783)**	(1,808)	(15,823)
Expenditure on investment properties		**(4,728)**	(6,650)	(11,120)
Net proceeds of sale of investment property		**3,373**	-	1,387
Net purchase of premises, equipment and vehicles		**(15)**	(46)	(143)
Net cash outflow		**(6,153)**	(8,504)	(25,699)
Equity Dividends Paid		**(3,823)**	(3,340)	(5,333)
Cash Outflow before use of Cash Resources and Financing		**(1,777)**	(6,143)	(22,267)
Financing				
Net proceeds of shares issued for cash		**64**	434	548
Drawdown of secured bank loans		**4,460**	5,709	21,719
Purchase of debenture stock		**(2,747)**	-	-
Movement in Cash Balances		**-**	-	-

Notes to the interim results

for the six months ended 31st March 2005

1 Basis of Accounting
The unaudited interim financial statements have been prepared on a basis consistent with the statutory financial statements for the year ended 30th September 2004.

Investment properties are stated at their market value at 30th September 2004 together with the cost of expenditure incurred during the period less the cumulative amount of rents recognised in advance in accordance with UITF 28. Investment properties acquired during the period are stated at cost.

The financial information for the periods ended 31st March 2005 and 2004 has not been audited or reviewed by the Company's auditors. The financial information in respect of the year ended 30th September 2004 has been extracted from the full Group financial statements which have been delivered to the Registrar of Companies, and on which the report of the auditors was unqualified.

	Six months ended		Year ended
	31.3.2005	31.3.2004	30.9.2004
	£'000	£'000	£'000
2 Turnover			
Rents invoiced	**24,123**	20,235	42,067
Adjustment in respect of lease incentives in accordance with UITF 28	**(345)**	1,576	2,361
Rents receivable	**23,778**	21,811	44,428
Recoverable property expenses	**2,378**	2,012	4,279
	26,156	23,823	48,707
3 Other property charges			
Property outgoings	**2,501**	2,177	4,219
Recoverable property expenses	**2,378**	2,012	4,279
	4,879	4,189	8,498
4 Exceptional administrative expenses			
Cost incurred in group restructure to create village subsidiaries	**292**	-	-
5 Surplus on disposal of investment property			
Net proceeds of sale of property	**3,373**	-	1,387
Book value at date of sale	**(3,280)**	-	(771)
	93	-	616
6 Loss on purchase of debenture stock			
Loss arising on the purchase and cancellation of £2.1 million (nominal) of 8.5% Mortgage Debenture Stock 2024	**647**	-	-
Unamortised net premium written off	**(98)**	-	-
	549	-	-

Notes to the interim results continued

		Six months ended		Year ended
		31.3.2005	31.3.2004	30.9.2004
		£'000	£'000	£'000
7 Taxation				
UK Corporation tax on revenue profit at 30%		**2,000**	2,000	4,150
Deferred taxation:				
Provision in respect of timing differences		**275**	325	570
		2,275	2,325	4,720
Over provision in prior years:				
Deferred taxation		**-**	-	(200)
		2,275	2,325	4,520
8 Dividends				
Interim dividend of 1.70p (2004 - 1.513p)				
per share to be paid on 24th June 2005		**2,240**	1,996	1,993
Final dividend of 2.90p per share		**-**	-	3,823
		2,240	1,996	5,816
9 Earnings per Share				
The calculations of earnings per				
Ordinary Share are based on:				
Adjusted profit on ordinary activities before taxation		**8,003**	7,550	14,708
Exceptional administrative expenses		**(292)**	-	-
Loss on purchase of debenture stock		**(549)**	-	-
Surplus on disposal of investment property		**93**	-	616
Profit on ordinary activities before taxation		**7,255**	7,550	15,324
Taxation		**(2,275)**	(2,325)	(4,520)
Profit on ordinary activities after taxation		**4,980**	5,225	10,804
Weighted average number of Ordinary Shares in issue	'000	**132,130**	131,848	131,931
Diluted average number of Ordinary Shares	'000	**132,332**	132,076	132,146

10 Freehold Investment Properties	**£'000**
At 1st October 2004 - book value	**825,580**
Acquisitions	**4,783**
Expenditure on investment properties	**6,004**
Disposals	**(3,280)**
At 31st March 2005	**833,087**
Movement in rents recognised in advance in period in accordance with UITF 28	**345**
At 31st March 2005 - book value	**833,432**
Comprises:	
Properties at market value at 30th September 2004 plus additions and expenditure at cost	**838,077**
Less: Cumulative rents recognised in advance in accordance with UITF 28	**(4,645)**
	833,432

11 Debtors	**31.3.2005**	31.3.2004	30.9.2004
	£'000	£'000	£'000
Amounts due from tenants	**6,534**	4,709	7,617
Rents not yet due but recognised in advance			
in accordance with UITF 28	**4,645**	4,205	4,990
Other debtors and prepayments	**456**	497	433
	11,635	9,411	13,040

12 Creditors Falling Due Within One Year

	31.3.2005 £'000	31.3.2004 £'000	30.9.2004 £'000
Rents invoiced in advance	**10,060**	8,858	9,948
Dividend payable	**2,240**	1,996	3,823
Corporation tax	**2,508**	2,371	2,520
Capital expenditure accruals	**5,600**	2,661	4,359
Other creditors and accruals	**7,352**	5,892	6,144
	27,760	21,778	26,794

13 Borrowings

	Nominal Value £'000	**Unamortised premium and issue costs £'000**	**31.3.2005 £'000**	31.3.2004 £'000	30.9.2004 £'000
8.5% First Mortgage Debenture Stock 2024	**129,900**	**5,952**	**135,852**	138,368	138,209
Secured bank loans	**210,183**	**(711)**	**209,472**	189,025	205,073
	340,083	**5,241**	**345,324**	327,393	343,282

14 Share Capital and Reserves

	Share Capital £'000	Share Premium Account £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
At 1st October 2004	33,022	119,575	259,175	52,873	464,645
Ordinary shares issued during period	17	47	-	-	64
Investment property revaluation surplus realised in period	-	-	(161)	161	-
Adjustment in respect of income recognised during the period in accordance with UITF 28	-	-	345	-	345
Retained profit for the period	-	-	-	2,740	2,740
At 31st March 2005	**33,039**	**119,622**	**259,359**	**55,774**	**467,794**

During the period 69,274 Ordinary Shares of 25p each were issued fully paid at prices in the range £0.77 to £2.42 on the exercise of options granted under the Company's 1987 and 1997 Share Option Schemes.

15 Net Cash Flow from Operating Activities

	Six months ended		Year ended
	31.3.2005 £'000	31.3.2004 £'000	30.9.2004 £'000
Net revenue from properties	**21,261**	19,618	40,178
Administrative expenses	**(2,160)**	(1,720)	(4,375)
Depreciation (adjusted for profit/losses on disposal)	**48**	61	109
Decrease /(increase) in debtors	**1,405**	(730)	(4,366)
Increase in creditors	**348**	1,143	2,589
	20,902	18,372	34,135

16 Analysis of Changes in Net Debt

	1.10.2004 £'000	Cash flows £'000	Non-cash items £'000	**31.3.2005 £'000**
8.5% Mortgage Debenture Stock 2024	(138,209)	2,747	(390)	**(135,852)**
Secured bank loans	(205,073)	(4,358)	(41)	**(209,472)**
	(343,282)	(1,611)	(431)	**(345,324)**

International Financial Reporting Standards

All groups with capital listed on a stock exchange in the European Union are required to adopt International Financial Reporting Standards ("IFRS") for accounting periods commencing on or after 1st January 2005. Shaftesbury's results for the year commencing on 1st October 2005 will be its first to be prepared under IFRS rather than UK Financial Reporting Standards ("UK GAAP").

The significant aspects of financial reporting that will be affected as a result of adopting IFRS are summarised below together with a table setting out adjustments to reported net assets that would arise if IFRS were to be applied at 31st March 2005. The principles underlying the changes have been discussed and agreed with the Group's advisors. However at this stage the detailed calculations have not been audited. Further guidance, including changes in the format of financial reporting required under IFRS will be provided with the 2005 Annual Report.

The changes identified below are based on the current interpretation of existing IFRS. It is possible that before the Group first prepares results under IFRS the standards may be subject to changes or the basis on which they are applied to the real estate sector will develop differently from current understanding.

Revaluation surpluses and deficits reported in the Income Statement

IAS 40, Investment Property, requires that the surplus or deficit arising on the revaluation of investment properties is reported in the Income Statement. Under UK GAAP these surpluses or deficits are reported as a movement in revaluation reserve in the Statement of Recognised Gains and Losses unless any deficit below original cost is considered to be permanent.

This change will have no impact on reported net assets. However the annual revaluation movement will be reported in the Income Statement as part of the Group's profit for the year. The cumulative surplus on revaluation will not be distributable.

Contingent tax on revaluation surpluses reported as part of the taxation charge

IAS 12, Income Taxes, requires a provision to be made for the tax on capital gains that would become payable if investment properties were sold at the values stated in the Balance Sheet. UK GAAP specifically prohibits this provision being made.

In the situation where there is no present intention to sell the Group's investment properties, the current interpretation of IAS 12 is that the provision should be calculated at the basic rate of Corporation Tax ignoring any indexation relief which is available under UK tax legislation or accumulated capital losses. Applying this interpretation, the provision required under IAS12 is greater that the contingent liability previously disclosed (but not provided) under UK GAAP.

The provision calculated under IAS 12, based on the investment property valuations at 30th September 2004, would be £85 million. This compares with an estimated liability calculated under UK GAAP of £57.5 million after allowing for indexation relief and capital losses. The provision will not affect distributable reserves.

Accrual for costs to complete projects

Under IFRS, costs in respect of projects in progress at a period end can be accrued only to the extent of work actually completed to that date. This contrasts with the Group's policy of accruing costs expected to be incurred in physically completing projects.

The effect of applying this basis of accounting is to reduce accruals to eliminate provision for the cost of works incurred after the period end up to completion. A similar amount will be deducted from the valuation of investment properties to reflect the costs to be incurred to complete projects in hand at the valuation date, so that there will be no net effect on the Group's revaluation surplus or net assets.

Lease incentives amortised over period to lease expiry

SIC 15, Operating Leases – Incentives, requires lease incentives granted to tenants at any time in the past to be spread over the term of the lease or to the date of the first right to break the lease. Under UK GAAP, incentives arising after 1st October 1999 are written off to the earlier of the first rent review or expiry of the lease.

The effect of spreading lease incentives over the longer period to the date of the first break under the tenant's lease is to increase the amount of income recognised in advance at 31st March 2005 by £2.10 million. The same adjustment is deducted from the book value of investment properties, so there is no net effect on reported net assets.

A deferred tax liability of £0.63 million will arise in respect of the additional income recognised.

Property marketing and letting costs reported in the Income Statement

IAS 40, Investment Property, classifies such costs as start-up costs and does not permit them to be capitalised. Currently the Group's accounting policy is to capitalise such costs where they relate to the first letting of a property following a major refurbishment.

At 31st March 2005, the cumulative amount of such costs capitalised was £4.26 million. Charging these costs in the Income Statement will reduce the historic cost of investment properties and increase the cumulative revaluation surplus by an equivalent amount, with no overall effect on reported net assets.

Share option expense

IFRS 2, Share-based Payment, requires an expense to be recognised in respect of share options granted after 7th November 2002. The charge is based on the fair value of the options granted and is spread over their vesting period.

Accordingly, a provision is required in respect of options granted up to 31st March 2005 of £0.59 million. A deferred tax asset of £0.80 million arises as a result of the basis on which tax relief will be available in respect of expensed share options.

Dividends not declared at the period end
IAS 10, Events after the Balance Sheet Date, requires that dividends not declared at the balance sheet date are not recognised. Currently, dividends proposed in respect of a reporting period are recognised as a liability at the end of that period.

Eliminating the provision for the 2005 interim dividend which was not declared until 24th May 2005 increases reported net assets at 31st March 2005 by £2.24 million.

Recognition and measurement of financial instruments
IAS 39, Financial Instruments: Recognition and Measurement, will require;

i) a change in the basis on which the net premium on the issue of £132 million 8.5% Mortgage Debenture Stock is amortised from a straight line basis to a "yield to maturity" basis;

ii) The inclusion in the financial statements of the fair value of the Group's financial instruments used to hedge interest rate exposure.

The effect of a change in the basis of debenture premium amortisation is to increase the book value of the outstanding debenture stock liability by £1.2 million at 31st March 2005. A deferred tax asset of £0.4 million will arise as a result of reducing the amortised net premium credited to date in the profit and loss account.

In accordance with IAS 39, the 8.5% Mortgage Debenture Stock will continue to be reported at amortised historic cost rather than fair value. The current fair value will continue to be disclosed by way of note.

The nature of the Group's interest rate hedging arrangements is such that they do not qualify for hedge accounting under IAS 39 and therefore they will be recorded in the Balance Sheet at fair value and changes in fair value will be recorded in the Income Statement.

The fair value of financial instruments at 31st March 2005 has been calculated by external advisors at £6.13 million. The provision will give rise to a deferred tax asset amounting to £1.84 million.

Summary of effects of IFRS on Reported Net Assets

The effects on the Group's reported net assets at 31st March 2005 of applying the IFRS adjustments referred to above is as follows:

	Increase/(reduction) £'000
Reported net assets at 31st March 2005 calculated under UK GAAP	**467,794**
Revaluation surpluses and deficits reported in the Income Statement	No effect
Contingent tax on revaluation surpluses reported as part of the taxation charge (based on valuations at 30th September 2004)	(85,000)
Accrual for costs to complete projects	No effect
Lease incentives amortised over period to lease expiry	2,100
Less: Deferred tax liability	(630)
Property marketing and letting costs reported in the Income Statement	No effect
Share option expense	(590)
Deferred tax asset arising in respect of expensed share options	800
Dividends not declared at the period end	2,240
Recognition and measurement of financial instruments:	
Adjustment to debenture stock amortisation	(1,200)
Add: Deferred tax asset	360
Fair value of interest rate hedges at 31st March 2005	(6,130)
Add: Deferred tax asset	1,840
Net assets at 31st March 2005 calculated under IFRS	**381,584**

International Financial Reporting Standards continued

Other changes not affecting Shaftesbury

Finance leases

Under IFRS, leases granted which transfer substantially all the risks and rewards of ownership to tenants cannot be categorised as investment property and should therefore be accounted for as finance leases. Leases in the Group's portfolio have been reviewed and it has been concluded that none of leases granted to date by Shaftesbury fall within the definition of finance leases.

Head lease liabilities

IAS 17, Leases, requires that the liability to pay rent in respect of investment leasehold properties is provided in full, based on the present value of minimum rental obligations. The liability calculated on this basis in respect of Shaftesbury's current leasehold investment properties is immaterial.

Cash flows and distribution policy

The adoption of IFRS will have no impact on the underlying cash flows of the Group although there will be changes in the presentation of the cash flow statement prepared under IFRS.

Changes in accounting under IFRS will not affect the Group's ability to continue with its current progressive dividend policy.

Taxation

The Group taxation charge will reflect profits calculated and reported under IFRS. The tax effects arising from the conversion of the Group accounts to an IFRS basis will be recorded principally as deferred tax adjustments and will not significantly affect current tax liabilities. At present the parent and subsidiary companies are expected to continue to prepare their accounts under UK GAAP and their actual tax liabilities will be calculated by reference to those accounts.

Directors, officers and advisors

Directors

P John Manser, CBE, DL, FCA
Non-executive Director and Chairman.

Jonathan S Lane, MA, FRICS
Chief Executive.

Brian Bickell, FCA
Finance Director.

Simon J Quayle, BSc, MRICS
Director.

Thomas J C Welton, MRICS
Director.

John R K Emly, FCIS
Senior Independent Director.
Remuneration Committee Chairman.

Alastair W MacDonald
Non-executive Director.

W Gordon McQueen, BSc, CA, FCIBS
Non-executive Director.
Audit Committee Chairman.

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Clydesdale Bank PLC
Lloyds TSB Bank Plc
Bank of Scotland

Debenture Stock Trustee
Prudential Trustee
Company Limited

Auditors
PricewaterhouseCoopers LLP

Solicitors
Lovells
Eversheds LLP

Valuers
DTZ Debenham Tie Leung Limited

Web sites
Corporate: www.shaftesbury.co.uk
Includes Annual and Interim Reports library from 1998 and recent corporate announcements. News Alert Service allows users to receive Company announcements by e-mail.

Carnaby: www.carnaby.co.uk
Information on tenants and events in Carnaby.

Covent Garden: www.sevendials.co.uk
Information on tenants and events in Seven Dials.

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