Town Centre Securities PLC

Annual Report and Accounts 2004

A Strong Legacy

I Arnold Ziff
Founder and Chairman
1959 – 2004

Tribute

Israel Arnold Ziff OBE, JP, Hon LLD, Hon D Univ

31 January 1927 – 14 July 2004

Arnold Ziff, founder and Chairman of the Company since its incorporation in 1959, passed away on 14 July 2004 at the age of 77. He was a truly remarkable man.

To cover his many qualities and considerable contributions to life and its enjoyment would quickly exhaust the space available to me here. He was a generous host and benefactor, a witty raconteur and after dinner speaker, a loving husband, father and grandfather. This tribute, however, is restricted to his life in business and particularly Town Centre Securities.

Arnold's success in the property world was based, quite simply, on his love of the business. "Shopping Streets of the UK" could have been his specialist subject on Mastermind – he knew them all! Properties in the portfolio were all known intimately and visits were frequent, irrespective of distance. Acquisitions had to have the prospect of further value being added through active management. For all his bonhomie, he was a tough negotiator. Being on the other side of the negotiating table must have been a trying experience for sellers, buyers, and tenants alike. Neither did professional advisers escape lightly whether they were bankers, accountants, solicitors or valuers. The tenacity that he brought to bear turned a Company initially valued at £0.25m into one with a market capitalisation approaching £200m.

The other key to his success was his attitude to personal relationships. Once a good mark had been made in his book, he would stick with people. The plethora of corporate governance codes with their requirements for changes driven by calendar rather than competence found little sympathy with him. "Why change a successful team in whom you had trust", was a frequently asked question.

Shaken by the behaviour of the City during the secondary banking and property crisis of the early 1970s, he treated borrowing with caution and institutional investors with what can be most diplomatically described as limited enthusiasm.

On the other hand it was a source of pride to him that the Company had more than 1,500 private investors on its share register. He saw them as personal supporters and for many years wrote letters of welcome and thanks for having acquired shares. Right to the end he had a care for them and spoke up for their interests in meetings of the Board.

His friends and fellow practitioners in the property world were legion and they mattered to him. It was typical of him that only a few days before his death, and in rapidly failing health, he should travel several hundred miles to attend a retirement function for a senior figure in the industry.

Arnold Ziff enriched the lives of those with whom he came into contact. He enriched his shareholders and he created his successor in whose hands the Company's fortunes will continue to prosper. The world is a better place for the part he played in its affairs and I was proud to be his colleague and, most of all, his friend.

J M Blackburn
Non-executive Director
January 1999 – December 2002

Corporate Statement

Town Centre Securities PLC is a property investment and development company. We aim to maximise shareholder returns over the long-term through the acquisition and active management of investments and developments, with secure and improving income in good locations.

Calendar of Events

Ex-dividend date	1 December 2004
Record date	3 December 2004
Annual General Meeting	14 December 2004
Final dividend for the year payable	4 January 2005

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"A Strong Legacy", Merrill Lynch, Real View 366

Financial Highlights

Net assets per share up 27.4% to 344p (2003: 270p), and "triple" net asset value per share* up 30.6% to 286p (2003: 219p), benefiting from the revaluation of the investment property portfolio and share buy-backs

Profit before tax fell to £6.6m (2003: £8.7m), primarily due to exceptional losses on property disposals of £1.5m

Underlying profit before tax, excluding disposals, increased 2.6% to £8.0m (2003: £7.8m)

Basic earnings per share 8.1p (2003: 9.8p) after the loss on disposal of investment properties. However, underlying earnings per share up 14% to 9.8p (2003: 8.6p)

Proposed final dividend of 4.1p (2003: 3.85p) making a total dividend per share of 5.9p (2003: 5.5p), an increase of 7.3%

Net asset value uplift expressed on a per share basis: revaluation of property portfolio and other investments 62p (84%), retained earnings and other recognised gains 3p (4%) and share buy-backs 9p (12%)

3.9m shares repurchased during the year at a cost of £7.4m helping to boost both earnings and net assets per share

*after taking into account the fair value adjustment on long-term debt, and estimated capital gains tax on the disposal of all properties.

		2004	2003
Profit before tax		**£6.6m**	£8.7m
Profit before tax**	– underlying	**£8.0m**	£7.8m
Earnings per share	– basic	**8.1p**	9.8p
	– diluted	**8.0p**	9.7p
Underlying earnings per share**	– basic	**9.8p**	8.6p
	– diluted	**9.7p**	8.5p
Dividends per share		**5.9p**	5.5p
Net assets per share		**344p**	270p
Gearing		**64%**	81%

** underlying profit and earnings per share represent reported earnings per share adjusted for the exceptional loss (2003: profit) on disposal of properties (net of taxation) and in respect of the year ended 30 June 2003, prior year taxation adjustments to the current year tax charge.

Chairman and Chief Executive's Report

Edward Ziff
Chairman and Chief Executive Officer

Opposite:
Artist's impression, Whitehall Road, Leeds

Below top:
Merrion Centre, Leeds

Below middle:
Albion Street, Leeds

Below bottom:
Tannochside Business Park, Uddingston

It is with a sense of honour that I deliver my first statement as Chairman of your Company, coupled as it is with great sadness that this should be as a result of the death of your Chairman, my father and the founder of the business, Israel Arnold Ziff, who passed away peacefully on 14 July 2004 after a short illness. He was an inspiration to all who knew him, both within the Company and outside it, and he has left a massive void, but also an inspiring legacy. He played a very active role in nurturing the Company from its foundation until just six days before he died. I hope that in time I will be able to contribute as much to the progress of this business as he did.

Operating and financial review

Results

I am pleased to report another successful year for the Company after a very strong performance from our investment property portfolio, resulting in a substantial revaluation surplus of £36.6m, an increase of 12.2%. We now own properties valued at £352m (2003: £325m) and our net assets increased to £203.7m up 19.6% on last year. Net assets per share increased 27.4% to 344p (2003: 270p) and "triple" net asset value per share, after taking into account the fair value adjustment on long-term debt and estimated capital gains tax on the disposal of all properties, increased 30.6% to 286p (2003: 219p).

Profit and loss

Turnover for the year to 30 June 2004 was marginally lower than last year at £24.4m (2003: £24.6m). Pre-tax profit, which includes the exceptional loss or profit on the disposal of investment properties, was £6.6m (2003: £8.7m) primarily as a result of a net loss on disposals of £1.5m (2003: profit £0.8m). Underlying profit before tax which excludes the effects of property disposals, was 2.6% higher at £8.0m (2003: £7.8m) helped by reduced interest costs. Basic earnings per share were 8.1p (2003: 9.8p per share), however, excluding the effect of disposals, underlying basic earnings per share increased by 14.0% to 9.8p (2003: 8.6p).

The loss on disposal of investment properties represents the net effect of the profit on sale of properties at Stockton, Redcar and certain residential units, offset by the loss against historic cost resulting from the disposal of The Waterfront Retail Park, Greenock.

Dividends

In recognition of the significantly improved underlying earnings per share, the Directors propose the payment of an increased final dividend of 4.1p per share (2003: 3.85p), making a total dividend for the year of 5.9p per share (2003: 5.5p), an increase of 7.3%, which is covered 1.8 times by underlying earnings (2003: 1.7 times). The final dividend will be paid on 4 January 2005 to shareholders on the register on 3 December 2004.

Financing and gearing

Net interest costs decreased 3.3% to £11.0m (2003: £11.3m). Interest cover, expressed as the ratio of operating profits to interest charges, increased to 1.73 times (2003: 1.69 times), reflecting the Company's continuing robust financial position.

Year end borrowings were 6.0% lower at £129.6m (2003: £137.9m) which, combined with the increase in shareholders' funds, resulted in lower gearing of 63.6% (2003: 81.0%). Of total borrowings, long-term fixed interest debt constitutes 65.6%, with the balance on floating rates. At 30 June 2004 our weighted average cost of debt was 8.85%. The £85m 10.5% mortgage debenture matures in 2021 and at 30 June 2004 had a fair value of £106.4m (2003: £109.7m). Total borrowings compared to total property assets stood at 36.8% (2003: 42.4%).

Taxation

The tax charge of £1.7m represents an overall tax rate of 26.1% and comprises corporation tax for the current year of £1.8m and current year deferred tax of £0.3m, offset by a prior year release of tax provisions of £0.4m. We estimate that a capital gains tax liability of £15.1m would arise if all the re-valued assets were disposed of at the amounts stated in the Accounts.

Chairman and Chief Executive's Report

continued

John Sutcliffe
Finance Director

Opposite:
Renfield Street, Glasgow

Below top:
Albion Place, Leeds

Below middle:
Empire House, Glasgow

Below bottom:
High Ousegate, York

Property revaluation	Valuation 2004 £'000	Valuation movement 03/04 %	Valuation 2003 £'000	Valuation movement 02/03 %
Shopping centres	107,500	16.2	92,350	9.2
Retail warehouses and foodstores	42,975	11.5	58,380	0.3
Shops	151,693	11.8	128,275	6.4
Total retail	**302,168**	**13.3**	**279,005**	**5.9**
Offices and residential	34,833	3.3	32,741	2.6
Total investment properties	**337,001**	**12.2**	**311,746**	**5.6**

Cash flow

At 30 June 2004 total borrowings had reduced by £8.3m compared to the previous year. Property sales generated £28.4m offset by property acquisitions of £15.9m and capitalised development costs of £1.8m. During the year we purchased 3.9m shares for cancellation at an average price of 188p per share resulting in a cash outflow of £7.4m. We continue to operate well within our committed facilities and have recently completed negotiations to renew our banking facilities for a further five years on improved terms.

Performance benchmarking and total returns

The Company's annualised total shareholder return from 5 April 1999 (being the date on which the Company initiated its long standing share buy-back programme) to 31 August 2004 was 36.0% compared to the FTSE Real Estate Index return of 11.0%, over the same period. Internally we judge ourselves on the creation of Total Shareholder Value (TSV), calculated as the increase in net asset value plus dividends per share. For the year ended 30 June 2004 TSV was 79.9p per share (2003: 45.5p), equating to a 29.6% (2003: 19.8%) return on opening net assets.

Tender offer

Share prices in the Real Estate sector, including that of Town Centre Securities, have generally traded at a discount to net asset value. By purchasing over 65m shares for cancellation over the last six years at an average price of 107p per share, we have been able to deliver significant increases in net asset value and earnings per share to long-term shareholders. However we recognise that this share repurchase programme will inevitably slow down as fewer shares remain in issue and the share price discount to net asset value has narrowed. This programme has not been readily available to all shareholders and following last year's successful tender offer, it is the Board's intention to recommend a further tender offer this year to buy-back for cancellation up to three million shares at a price of 310p per share.

Directors

I would like to welcome our two new Non-executive Directors to the Board. John Nettleton, recently retired Senior Partner of Donaldsons, joined us on 1 July 2004. With a wealth of experience in the property world, his knowledge of retail property will be of great benefit.

Chairman and Chief Executive's Report

continued

James Crawford
Investment Director

Opposite:
Parliament Street, York

Below top:
Lands Lane, Leeds

Below middle:
Empire House, Glasgow

Below bottom:
Thorntons Chambers, Leeds

Directors (continued)

My brother, Michael Ziff, who as Chairman and Chief Executive of Stylo plc oversees a portfolio of over 650 high street shops and concessions, joined us on 15 July 2004. His retail experience and corporate finance knowledge will complement the skills of other Board members. In addition, Robin Smith, our senior Non-executive Director has been appointed Deputy Chairman. We greatly value his wise counsel and together with our other Non-executive Directors we are sure that these changes will help take the Company forward in its next phase of development.

Annual operating review

Whilst we continue to focus on our core strategic goals, given the very bullish nature of the market place at present, we have identified limited opportunities to acquire new investment properties which match our expectations for rental and capital growth. Earnings and cash flow remain crucial to the future success of the Company and therefore property disposals will inevitably be held back if we are unable to replace stock at prices that generate the required return. How long these market conditions will continue is difficult to predict, but we believe that they are partly caused by the historically inexpensive cost of debt. The strength of the regional retail shop market does however validate our decision to improve the quality and size of investments within our portfolio over recent years.

The emphasis of our activity in the short-term has therefore swung towards our development portfolio. We do however remain committed to cautious management of the balance between gearing and risk and we will continue to ensure that a high proportion of our development programme is pre-let.

Property investment

Portfolio performance

The annual independent valuation of our investment portfolio, carried out by Jones Lang LaSalle, resulted in a revaluation surplus of £36.6m, an increase of 12.2%. For the first time this surplus takes into account the entire benefit of the exemption of stamp duty land tax from properties in disadvantaged areas; if this is ignored the surplus is reduced by £7.0m but still reflects growth of 10.0% (2003: 5.6%). This performance is our best for many years and has been achieved through underlying rental growth as well as improved investor demand for retail property. All principal business areas have performed well, with our shopping centres increasing in value by 16.2%, high street shops by 11.8%, retail warehouses and food stores by 11.5% and offices by 3.7%.

Disposals and acquisitions

We sold five investment properties for £28.4m. The principal sales were Waterfront Retail Park, Greenock and Portrack Retail Park, Stockton-on-Tees. In total we spent £15.9m on acquisitions. We acquired a significant ownership on Parliament Street, York leased to The Disney Store and Thorntons, subsequently adding to it with the purchase of two adjoining properties. Together these acquisitions cost £10.0m, are well located and offer strong prospects for rental and capital appreciation; furthermore we believe there is long-term redevelopment potential. We have also acquired a modern campus style office building at Uddingston near Glasgow which is already showing a yield on cost in excess of 10%.

Asset management

Our occupancy rate remains above 97% and as a result of our improving tenant profile, bad debts and other associated costs remain low.

We continue to extract further value from our portfolio and have concluded rent reviews and lease renewals in prime retail locations including Buchanan Street and Sauchiehall Street, Glasgow, Shandwick Place, Edinburgh, Vicar Lane, Leeds and Coney Street, York. In each instance we own adjoining property which should benefit from these improvements. In total, our like for like rental income increased by 4.3% this year, helped by a 20% uplift on

Chairman and Chief Executive's Report

continued

Richard Lewis
Development Director

Opposite:
Coney Street, York

Asset management (continued)
the rent review settlements and lease renewals which took place on 15% of the portfolio.

The conversion of over 20 new City Centre apartments at Thornton Chambers, Leeds and Lendal, York have been completed and are available to let. We now own 45 apartments, let at market rents, utilising previously redundant upper floors of existing retail units.

Property development

Over recent years we have placed greater emphasis on our development portfolio. We endeavour to make progress in obtaining the necessary planning consents, which will allow us to bring forward the following development opportunities that are central to our core strategy.

Manchester – Piccadilly Basin
We are progressing retailer interest for a single letting of 11,152 sq m (120,000 sq ft). Discussions continue with other potential occupiers regarding commercial development on the site, which may allow construction to commence during the course of the next year.

Leeds – Whitehall Road
Detailed planning consent has now been obtained for the first three office buildings totalling 30,760 sq m (330,000 sq ft). Work has commenced on site for the first of these fronting the River Aire, following the pre-letting of 2,974 sq m (32,000 sq ft) to Russell Mellon Limited.

Leeds – Eastgate and Harewood Quarter
We have entered into a joint venture agreement with Hammerson PLC in conjunction with Leeds City Council in order to deliver this major retail development comprising approximately 100,000 sq m (1,076,000 sq ft). Letting discussions have commenced with potential anchor tenants for the development and it is hoped that an outline planning application will be lodged in the first quarter of 2005.

Salisbury – The Maltings
We have now obtained a detailed planning consent for our proposed new food store for J Sainsbury plc, which will replace their existing store on the site. Prior to commencing the development, we are investigating the possibility of enlarging the scheme and working with adjacent landowners to assess the feasibility of this.

King's Lynn – Pierpoint Retail Park
We were unsuccessful with our planning application for a new B&Q store. We have appealed this decision and whilst we await the outcome we continue to enjoy a healthy income stream from the temporary lettings we have on the site.

Outlook

We remain intent on delivering growth in shareholder value to our shareholders from the strong foundations already laid. I am confident in our ability to improve profits and achieve progress across both our investment and development portfolios in the current year.

Finally, I would like to express my sincere thanks to all my colleagues and staff for their continued hard work, commitment and support throughout the year. With the backing and enthusiasm of management and staff, allied to our financial strength and the exciting potential within the investment and development portfolios, the Board has confidence in the Company's future prospects.

E M Ziff
Chairman and Chief Executive
8 September 2004

Ten Year Record

Opposite:
Parliament Street, York

	Properties £000	Borrowings £000	Net assets £000	Gearing %	Net assets per share Pence
2004	**351,296**	**129,572**	**203,667**	**63.6**	**344**
2003	324,271	137,931	170,251	81.0	270
2002	315,147	136,956	160,987	85.1	230
2001	287,460	118,513	153,292	77.3	206
2000	308,757	132,120	173,065	76.3	177
1999	323,166	134,433	181,170	74.2	154
1998	306,044	121,883	175,806	69.3	142
1997	283,408	118,524	173,452	68.3	141
1996	259,708	103,841	156,760	66.2	127
1995	241,636	89,648	156,764	57.2	128

	Gross revenue £000	Underlying profit before tax £000	Dividends per share Pence	Earnings per share	
				Reported Pence	Underlying Pence
2004	**24,381**	**8,026**	**5.9**	**8.1**	**9.8**
2003	24,591	7,817	5.5	9.8	8.6
2002	23,936	8,279	5.0	11.5	8.1
2001	37,988	7,871	4.75	17.3	7.1
2000	36,012	10,593	4.5	8.6	7.4
1999	31,105	11,023	4.3	8.8	6.9
1998	29,341	10,968	4.1	4.8	6.8
1997	27,574	10,564	4.0	8.9	6.6
1996	24,177	9,867	3.7	6.3	6.2
1995	21,965	9,300	3.4	6.7	5.1

Notes:
1. Dividends, earnings and net assets per share have been restated to take account of the reorganisation of share capital in 1998.
2. Underlying profit before tax and underlying earnings per share have been adjusted to exclude exceptional profits on disposal of investment properties and prior year tax adjustments.
3. The results for the year ended 30 June 2001 have been restated for FRS 19 "Deferred Tax".
4. The results for the year ended 30 June 2003 have been restated for UITF 38 "Accounting for ESOP Trusts".

Property Portfolio

principal properties

Shopping centres	Tenure	Area sq ft
Leeds The Merrion Centre	F/H	500,000

An island site which comprises a covered shopping centre, multistorey car park, hotel and office development. Major tenants include Leeds City Council and Morrisons.

Salisbury The Maltings L/H 87,000

The scheme comprises a supermarket, 24 retail units, public house, flats and car park. The principal tenant is Sainsburys.

Retail warehouses and food stores

Derby Kingsway Retail Park F/H 20,000

The property comprises a prominent retail unit adjoining a food store and non-food retail park. The property is let to Currys.

Glasgow 363/381 Byres Road & 9/19 Grosvenor Lane F/H 32,000

The premises form a supermarket and multistorey car park let to Safeways.

Kings Lynn Pierpoint Retail Park F/H 66,000

The property comprises a retail warehouse park forming four units with an open A1 non-food planning consent. The tenants are Homebase, DFS, Powerhouse and Comet.

Rochdale Central Retail Park F/H 143,000

The property forms a mid 1980's retail park leased to Poundstretcher, Focus, Halfords, MFI and a new development let to Matalan. The park benefits from an open A1 non-food planning consent.

Offices

Glasgow 33 Bothwell Street F/H 26,841

The property comprises a modern office block on six storeys with a basement floor providing 12 car parking spaces. It enjoys a prominent City Centre site. Tenants include Starbucks, Turner Townsend, Bovis Lend Lease and Tods Murray.

Offices (continued)	Tenure	Area sq ft
Glasgow The Eagle Building, 215 Bothwell Street	F/H	69,212

The property comprises a modern fully air conditioned office building providing open plan office accommodation over eleven storeys with two basement floors providing 33 car parking spaces. Tenants include Zurich Insurance, Eagle Star Insurance and the Secretary of State for the Environment.

Nottingham Phoenix House, Colliers Way F/H 17,180

The property comprises a modern fully air conditioned office building on two floors prominently situated on a leading business park; with 89 car parking spaces. The property is let to computer software company, Digica.

Uddingston Tannochside Business Park L/H 30,500

A modern two storey campus style office building with parking for 129 cars. The property is let to Jacobs Engineering and Core Utility Solutions.

High street shops

Blackpool 6/24 Abingdon St & Abingdon St Market F/H 29,000

The property comprises three shop units with offices above and a long established covered market. Tenants include Specsavers, John Waddington Cards and Lloyds Pharmacy.

Blackpool 18/22 Victoria Street F/H 8,000

The property forms a two storey shop development let to Arcadia Group.

Crewe 60/66a Market Street & 1 Earle Street F/H 13,000

The property comprises a parade of eight shops. Tenants include Orange, Select, Claire's Accessories and Dolland and Aitchinson.

High street shops (continued)	Tenure	Area sq ft
Edinburgh 1/23, 35/47 & 63/65 Shandwick Place	F/H	24,000
The property comprises a series of period buildings, forming retail premises with offices above. Tenants include C&J Clark, Newcastle Building Society and Costa Coffee.		
Glasgow 101/107 Buchanan Street	F/H	10,500
The property provides retail accommodation on basement, ground and first floors with ancillary accommodation above. The tenants are Dune and Black and Lizars.		
Glasgow Empire House, West Nile, 59 Sauchiehall & 108/112 Renfield Street	F/H	69,000
The property forms an island site comprising nine retail units with four floors of offices above. Tenants include Starbucks, Laing the Jeweller, Gold Group International and Pizza Hut.		
Huddersfield 31/35 New Street & 1/20 Market Avenue	L/H	19,000
The property comprises two shop premises, an arcade forming 12 retail units and offices. Tenants include Orange and Stylo Barratt.		
Leeds 93/97 Albion Street	F/H	21,500
The property comprises a single retail unit on the ground and two upper floors let in its entirety to Waterstones.		
Leeds 50/54 Albion Street & 35 Albion Place	F/H	18,000
The property forms a Grade 2 listed building currently occupied as two retail premises together with upper parts, and a basement wine bar. The property is leased to Austin Reed, Game Retail and West Midlands Taverns.		
Leeds 5/7 Lands Lane & 30/34 Albion Place	F/H	25,000
A retail unit on ground and three upper floors together with an adjoining three storey period office property. The property is leased to WH Smith and Pertemps Group.		

High street shops (continued)	Tenure	Area sq ft
Leeds 24/29 Boar Lane	F/H	18,000
The property forms two retail units with ancillary parts and flats above. The principal tenants are Yates and Ladbrokes.		
Leeds 55/69 The Headrow & 38 Lands Lane	F/H	14,000
A three storey building with basement comprising six shop units with two floors of offices above. Tenants include Planet and Whittards.		
Leeds 76/82 Vicar Lane	F/H	39,000
The property comprises a five storey building principally used for retail purposes. The main tenants are Flannels and Fired Earth.		
Manchester 34/36 King Street	F/H	6,800
The property forms a retail unit on basement and ground floors with ancillary office accommodation above. The property is let in its entirety to Planet.		
Wrexham 26, 28/31 Hope Street, 3A/3B & 5 Priory Street	F/H	25,000
The premises comprise five retail units on ground and upper floors. Tenants include Dixons.		
York 50/52a Coney Street & 4/6 Market Street	F/H	11,000
The property comprises four retail units with ancillary accommodation above on a prominent corner position. The tenants are T Mobile, Milletts and Fraser Hart.		
York 2/8 Pavement & 5/9 Piccadilly	F/H	14,000
The property comprises two retail premises on ground and two upper floors let to Lloyds TSB and Oddbins.		
York 14/17 Parliament Street, 8/12 Feasegate & 22/30 Market Street	F/H	26,000
The property comprises five retail units on ground and basement floors with ancillary accommodation above. Tenants include Disney, Optical Express and Early Learning Centre.		

Board of Directors

From left to right:
Standing: Richard Lewis, John Nettleton, Clive Lewis, John Sutcliffe and James Crawford.

Seated: Robin Smith, Edward Ziff and Michael Ziff.

Chairman and Chief Executive

Edward Ziff, age 44, joined the Company in 1980. He was appointed to the Board in 1985 and served as Managing Director from 1993. In February 2001 he was appointed Chief Executive Officer and in July 2004 appointed Chairman.

Executive Directors

James Crawford MRICS, age 42, joined the Company in 1994 and was appointed to the Board in 1996. He is a chartered surveyor who previously worked in private practice. He has responsibility for all property investment, portfolio management and health and safety matters.

Richard Lewis FRICS, age 49, joined the Company in April 2000 and was appointed to the Board in February 2001 as Director responsible for the Group's property development activities and environmental matters. He is a chartered surveyor and previously worked for First Group plc.

John Sutcliffe ACA, age 45, joined the Board in May 2002 when he was appointed Finance Director. He is a chartered accountant and previously worked as Finance Director for Abbeycrest Plc. He is responsible for all financial, treasury and company secretarial matters.

Deputy Chairman

Robin Smith TD LL.B DL, age 61, joined the Company in 1999 as a Non-executive Director and was appointed Deputy Chairman in July 2004. A former senior partner of DLA and past President of the Leeds Law Society, he also serves as a Non-executive Director of Leeds and Holbeck Building Society and is the Yorkshire Regional Chairman of Coutts & Co.

Non-executive Directors

Clive Lewis Hon D Litt FRICS, age 68, joined the Company in 1994. A past President of the Royal Institution of Chartered Surveyors, he also serves as a Non-executive Director of Freeport plc and was, until July 2002, the Chairman of the Bank of England property forum.

John Nettleton, age 56, joined the Board in July 2004. A chartered surveyor and arbitrator specialising in retail property and development, he was from 1997, Senior Partner of Donaldsons the national firm of chartered surveyors, for whom he worked for 27 years until his retirement in June 2004.

Michael Ziff, age 51, joined the Company in July 2004. He is the Chairman and Chief Executive of Stylo plc, for whom he has worked for 26 years. He became Chief Executive of Stylo plc in 1991 and Chairman and Chief Executive in 2000.

Company Advisers

Registered office
Town Centre House
The Merrion Centre
Leeds LS2 8LY

Registered number
623364 England

Bankers
Lloyds TSB Bank plc
The Royal Bank of Scotland

Brokers
Deutsche Bank AG London

Trustees to mortgage debenture holders
Capita IRG Trustees

Auditors
PricewaterhouseCoopers LLP

Solicitors
DLA

Financial advisers
KPMG Corporate Finance

Valuers
Jones Lang LaSalle

Corporate public relations
Smithfield

Registrar and transfer office
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 30 June 2004. A review of the performance of the Group and its results for the year together with its future prospects is contained on pages 3 to 15, which should be read in conjunction with this report.

Principal activities
The principal activities of the Company and its subsidiary undertakings (the Group) during the financial year remained those of property investment, development and trading.

Results for the year and dividends
The results are set out in the Consolidated Profit and Loss Account on page 28.

An interim dividend of 1.8p per share was paid on 30 June 2004 and the Directors now recommend the payment of a final ordinary dividend of 4.1p per share. The proposed final dividend will be paid on 4 January 2005 to ordinary shareholders on the register at the close of business on 3 December 2004.

Fixed assets
Details of movements in fixed assets are set out in Notes 11 and 12 to the Accounts.

Properties held for trading and development are valued at cost or at Directors' previous valuation. Certain residential and other sundry assets were revalued by the Directors at £3,349,000 (2003: £6,141,000). All other freehold and long leasehold investment properties have been revalued by Jones Lang LaSalle, as at 30 June 2004, on the basis of open market value. In arriving at the total valuation each property has been valued individually and no allowance has been made for expenses of realisation nor for taxation which may arise in the event of disposal.

Share capital
Detailed changes in the Company's issued share capital during the year are set out in Note 18 to the Accounts.

Purchase of own shares
During the year the Company purchased in the market, a total of 3,926,360 ordinary shares, with a nominal value of £981,590, representing 6.6% of the current issued share capital for a total consideration of £7,366,282. These shares were subsequently cancelled.

At the forthcoming Annual General Meeting (AGM) the Company will be seeking to renew its authority to purchase up to 14.9% of the ordinary shares in issue, assuming the remaining authority is fully utilised. Authority was previously granted to acquire 8,236,560 ordinary shares at the AGM in December 2003 and since then 556,000 shares have been acquired leaving 7,680,560 unutilised. Shares will only be purchased if the Board believes it can take advantage of Stock Market conditions to enhance returns for the remaining shareholders.

Derivatives and other financial instruments
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans and debenture stock. The Group seeks to minimise the risk of fluctuating interest rates by using long-term fixed debt to match its property ownerships and commitments. The Board constantly reviews its interest rate exposure and uses swaps and other instruments for hedging purposes as it considers appropriate. Detailed disclosure in respect of derivatives and financial instruments, in accordance with FRS 13, is set out in Note 17 to the Accounts.

Supplier payment policy
It is the Company's and Group's policy to agree payment terms with suppliers when entering into each transaction or series of transactions to ensure that suppliers are made aware of these terms and to abide by them. Creditor days at the end of the year for the Group were 15 days (2003: 13 days), and for the Company were 9 days (2003: 3 days).

Donations
Charitable donations during the year amounted to £30,000 (2003: £22,000). Details of charities supported by the Group are set out on page 49. The Group has made no political contributions in either year.

Taxation status
The Company is not a close company.

Directors' and officers' liability insurance
The Group maintains liability insurance on behalf of the Directors and officers of the Group.

Impact of International Financial Reporting Standards (IFRS)

Since the Company is listed, the Group will be required to produce its consolidated financial statements for the year ended 30 June 2006 in line with IFRS. This will require an opening balance sheet to be prepared at 1 July 2004 and a full Profit and Loss Account, Balance Sheet, Cash Flow Statement and related Notes for the year ending 30 June 2005 for comparative purposes.

The Group is reviewing the changes to its current accounting policies that will be required on the adoption of IFRS and has a project plan in place to ensure full compliance with all relevant standards when they become effective in 2005.

Substantial shareholdings

Excluding those of the Directors, the Company had been notified of the following substantial interests in its share capital at 31 August 2004.

	No. of shares	% of issued capital
A L Manning	6,004,232	10.14
M A Ziff (appointed Non-executive Director 15 July 2004)	4,831,857	8.16

Directors

The Directors of the Company at the year end and their biographical details are shown on page 16 and their interests in the shares of the Company are disclosed in the Directors' Remuneration Report on pages 22 to 26. E M Ziff and J T Sutcliffe retire by rotation and offer themselves for re-election at the AGM. M A Ziff and J A Nettleton offer themselves for election having been appointed since the last AGM. At no time during the year has any Director had any interest in any significant contract with the Company.

Employees

Staff at every level are encouraged to make their fullest contribution to the Group's performance and this is encouraged through savings related and other share option schemes. The Group's selection and promotion policies ensure equal opportunities for all employees regardless of disability, gender, marital status, race, age or sexual orientation. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment continues and appropriate training is arranged if necessary. The Group actively encourages the formal training and career development of all its employees.

Capital gains tax

For capital gains tax purposes, the adjusted March 1982 value of the ordinary shares is 24.8p, which is increased by indexation up to 30 June 2004 to 58.3p.

Environmental statement

Our policy sets out our commitment to minimising the environmental impacts arising from our property acquisition, management and development activities. We recognise the importance which the environment and issues of sustainability have to the community and the impact they can have upon financial operations and we continue to reappraise our strategy and management each year. Main Board responsibility and the setting of achievable targets is fundamental to its implementation.

The Board is committed to meeting regularly and communicating environmental issues to our employees and tenants, and a newsletter will be circulated to increase awareness of good practice measures. This is particularly important given that many of the environmental impacts arising from our activities are outside our control as landlord.

As well as complying with all legislation relating to our business activities, we continue to adopt new environmentally friendly techniques and build upon the successes of previous years.

Annual General Meeting

A separate notice will be issued explaining the special business to be considered at the AGM on 14 December 2004. This will include renewal of the Company's authority to allot equity securities for cash other than on a pre-emptive basis to existing shareholders and the renewal of the authority to purchase, in the market, the Company's own shares.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office and a resolution that they be re-appointed will be proposed at the AGM.

By order of the Board

J T Sutcliffe
Secretary
8 September 2004

Corporate Governance

This report is prepared in accordance with the June 1998 Combined Code (the Combined Code). The Board is collectively responsible for the success of the Company and is committed to a high standard of governance. The Company has complied with the provisions set out in Section 1 of the Combined Code, except where noted below. This Statement describes how the relevant principles of governance are applied to the Company.

Statement of compliance with the Combined Code

The Board of Directors has complied with the Combined Code throughout the year except for the following matters:

- under the articles it is not currently a requirement for the Chairman and the Executive Directors to retire by rotation as recommended by Code provision A.6.2. The Chairman currently intends to voluntarily offer himself for retirement by rotation and the other Executive Directors voluntarily offer themselves for retirement by rotation;
- in view of the size of the Board it has not been considered appropriate to establish a Nominations Committee as recommended by Code provision A.5.1. Instead the entire Board acts as a Nominations Committee;
- the Chief Executive Officer has a service contract with a notice period greater than one year, which is the recommended limit in Code provision B.1.7;
- the Non-executive Directors do not have service contracts as recommended by Code provision A.6.1; and
- during the year the Board included only two Non-executive directors rather than the three as recommended by Code provision D.3.1.

Board of Directors

On 14 July 2004, the Chairman I A Ziff passed away. The Board now comprises four Non-executive Directors and four Executive Directors, including the Chief Executive Officer who (effective from 15 July 2004) also combines his role with that of Chairman. The Non-executive Directors include two new members; J A Nettleton (appointed 1 July 2004) and M A Ziff (appointed 15 July 2004). The senior Non-executive Director is R A Smith, who was also appointed as Deputy Chairman on 15 July 2004. The Board considers that all Non-executive Directors should be regarded as independent.

The full Board meets eight times a year and annually reviews the strategic direction of the Group. All meetings held during the year were attended by the entire Board. The Board manages overall control of the Group's affairs by the schedule of matters reserved for its decision. These include the approval of financial statements, business plans, all major acquisitions and disposals, risk management strategy and treasury decisions.

There is an agreed procedure for Directors to take independent professional advice at the Company's expense, if necessary to the performance of their duties. This is in addition to the access which every Director has to the Company Secretary.

The Board's Audit Committee is composed solely of the Non-executive Directors. It meets with the external auditors twice a year and its duties include the monitoring of the Group's financial controls, the detailed review of the Annual Report and Accounts and Interim Statement before submission to the full Board and the review of the Group's accounting policies. The other Executive Board members are usually invited to attend at least part of these meetings.

The Remuneration Committee of the Board meets annually and is comprised solely of the Non-executive Directors. The entire Board acts as a Nominations Committee and is responsible for the selection and approval of candidates for appointment to the Board.

The Board has established a Review Forum, which comprises Executive Directors and senior managers who meet monthly. The Board has delegated to the Review Forum responsibility for executing its strategies and policies, operational management and the implementation of the systems of internal control, within agreed parameters.

Internal control

The Combined Code requires that the Directors review, at least annually, all controls including operational, compliance and risk management as well as financial controls and report to shareholders that they have done so. The Board of Directors is responsible for ensuring that adequate internal controls are in place to safeguard the assets and interests of the Group and Company, and considerable importance is placed on maintaining a strong control environment. However, any such control system can only give reasonable and not absolute assurance against material misstatement or loss.

Internal control (continued)
Processes and procedures for identifying and managing the risks faced by the Company have been operating fully since 1 November 2000 and up to the date of this report. The Board has conducted risk assessment reviews, which accord with the Turnbull Committee guidance issued in September 1999.

The key control procedures, which the Directors have established with a view to providing effective internal control, are as follows:

- an annual review of all business risks by the Board and the Review Forum, which also identifies procedures to manage and mitigate such risks;
- a clearly defined organisational structure with appropriate levels of authority and segregation of duties;
- a comprehensive system of financial reporting to the Board and senior Executives based upon an annual budget in line with strategic objectives. Performance is monitored and relevant action is taken throughout the year through reporting of variances from budget and updated profit forecasts;
- active participation by the Board in treasury management matters. Cash flow projections are prepared monthly on a rolling two year basis;
- capital expenditure and disposal proposals are appraised and monitored by the Review Forum on a project by project basis. Significant acquisitions and disposals are ratified by the Board; and
- the Group does not currently have an internal audit function but the need for one is considered by the Audit Committee annually.

Statement of Directors' responsibilities
Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and Company at the end of the year and of the profit or loss of the Group for that period. The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently, with the exception of the changes arising on the adoption of new accounting standards in the year as explained in Note 1 to the Accounts. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 June 2004 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. This document (the Annual Report and Accounts 2004) will be published on the Group's website. The maintenance and integrity of the website is the responsibility of the Directors and the work carried out by the auditors does not involve consideration of these matters.

Going concern
After consideration of future trading activities and making appropriate enquiries, including a review of forecasts, budgets and banking facilities, the Directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Accounts.

By order of the Board

J T Sutcliffe
Secretary
8 September 2004

Directors' Remuneration Report

The Directors present the Directors' Remuneration Report for the year ended 30 June 2004. A resolution to approve the Directors' Remuneration Report will be proposed at the Company's Annual General Meeting.

The auditors are required to report to the shareholders on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion the "auditable part" has been properly prepared in accordance with the Companies Act 1985. The report therefore has separate sections containing unaudited and audited information.

Unaudited information

Remuneration Committee

The Remuneration Committee consists wholly of independent Non-executive Directors. The following independent Non-executive Directors served as members of the Remuneration Committee during the year and in the period to 7 September 2004 unless otherwise stated:

R A Smith (Chairman of the Remuneration Committee)

C H Lewis

J A Nettleton (appointed 1 July 2004)

The Remuneration Committee makes recommendations to the Board, within agreed terms of reference, concerning the Company's framework of Executive remuneration. The Remuneration Committee determines the remuneration and benefits packages of the Chairman and Executive Directors, considers their service contracts, salaries and other benefits including bonuses and participation in the Company's share option plans and other terms and conditions of employment including any compensation payments on termination of office.

E M Ziff is invited to attend meetings where appropriate to provide advice to the Remuneration Committee. However no Executive Directors are present when matters affecting their own remuneration are discussed by the Remuneration Committee.

Remuneration policy

The Remuneration Committee sets the remuneration of the Chairman and Executive Directors. The remuneration of Non-executive Directors is determined by the Board. The remuneration policy is that the remuneration package of the Executive Directors should be sufficiently competitive to attract, retain and motivate directors to achieve the Company's objectives. In determining the remuneration policy the Company aims to attract and retain directors to manage the Company successfully, without making excessive payments.

There are five main elements to the remuneration packages of the Executive Directors:

- Basic salary and benefits
- Annual bonus awards
- Share options
- Pensions
- Long-term performance related incentives

Basic salary and benefits

Directors' basic salaries and benefits are reviewed annually. The Committee takes into account individual performance, the recommendations of the Chief Executive, published remuneration information on comparable companies and the salary policy within the Group, in making its recommendations to the Board. Benefits include the provision of company cars (although in the case of R A Lewis and J T Sutcliffe a salary alternative is paid), permanent health and medical insurance premiums. The value of benefits, or the salary alternative, is not pensionable. The value of each element of the salary, pension and benefits package is set out in the table and the Notes on page 24.

Annual bonus awards

All employees are eligible to participate in the Group's discretionary Annual Bonus Scheme, under which a percentage of salary is awarded based on a combination of individual and Group performance in terms of profit and the growth in shareholder value (based on the increase in net asset value per share and dividends paid). The annual award is made, at the discretion of the Board on the recommendation of the Remuneration Committee, up to a maximum of 60% of salary. The bonus awards are not pensionable.

Unaudited information (continued)

Long-term incentives

The Executive Directors' long-term incentive awards have been achieved through an Unapproved Executive Share Option Scheme, which was approved by shareholders in 1994 and is not subject to Inland Revenue rules. The scheme is subject to the satisfaction of specific performance targets. The target compares the Company's Total Shareholder Return (measured by a combination of change in share price and dividends paid) against that of the FTSE Real Estate Index over a rolling three year period. 50% of the unapproved options are exercisable provided the performance exceeds the median of the index, with a further 25% for top quartile performance and full exercise for top decile performance. These performance conditions were chosen because they are challenging and not only take into account the need for long-term performance and commitment but are also important means of aligning the interests of Executive Directors and shareholders. Executive Directors and certain employees are eligible to participate in the scheme. The right to exercise unapproved options terminates on the employee ceasing to hold office with the Group, subject to certain exceptions and the discretion of the Board. The shares granted to the Executives are disclosed in the Directors' share option holdings on page 26.

Share options

Share option schemes are seen as an effective way of aligning the long-term interests of employees with those of the shareholders. The Company operates three share option schemes in respect of ordinary shares:

- a Save As You Earn Share Option Scheme, which is open to all eligible employees including Executive Directors. Non-executive Directors do not participate. The scheme was approved by shareholders and is subject to Inland Revenue rules. Options have been granted to scheme members at 100% of the prevailing market price. There are no performance criteria attached to the exercise of these options. These options may be exercised within a fixed six month period, three, five or seven years from the date of grant. The right to exercise options terminates if the employee ceases to be employed by the Group subject to certain exceptions and the discretion of the Board;
- an Executive Share Option Scheme, which was approved by shareholders in 1997 and is subject to Inland Revenue rules. Executive Directors and certain employees are eligible to participate in the scheme. There are no performance criteria attached to the exercise of these share options which must be exercised between three and ten years from the date of grant. The right to exercise options terminates upon the employee ceasing to hold office or employment with the Group subject to certain exceptions and the discretion of the Board; and
- a Share Incentive Plan, which was approved by shareholders in December 2003 and is open to all eligible employees including Executive Directors and Non-executive Directors. The plan is subject to Inland Revenue rules that allow employees to acquire partnership, matching, free and dividend shares through a combination of investment and company grant. Under certain circumstances the free and matching shares granted are subject to forfeiture should the employee cease to be employed within the first three years of the plan. The plan allows the Company to award differing grants of shares in these elements in different financial periods. Combining all the elements of the plan, the maximum value that may be awarded to any individual in any one year is £7,500.

Pensions

All Executive Directors are members of the Group's defined contribution pension and life assurance scheme. The scheme provides Executive Directors with a pension based on a target, depending on length of service, of up to two-thirds of pensionable salary on retirement. The scheme also provides a lump sum death in service benefit and pension for dependents of members on their death in service or following retirement. Normal retirement age is 60.

Service contracts

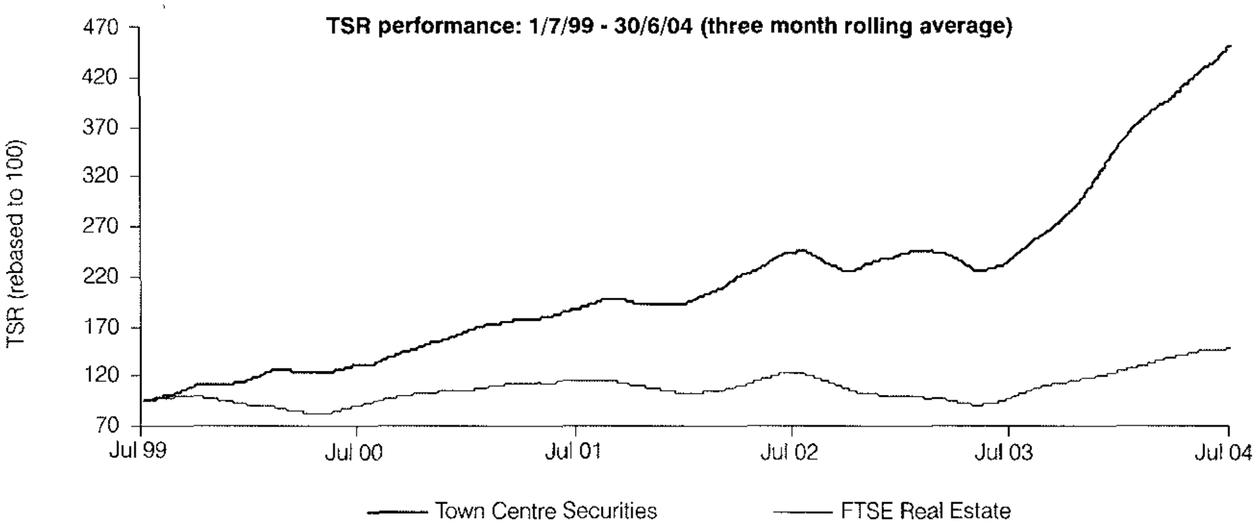
The Non-executive Directors do not have service contracts and the other Executive Directors who held office at 30 June 2004 have rolling service contracts which provide for normal retirement age at 60. Whilst I A Ziff was Chairman he did not have a service contract and E M Ziff has a service contract that is subject to not less than two years' notice. T J Crawford, R A Lewis and J T Sutcliffe have service contracts under which they are entitled to one year's notice. The Company can discharge any obligation in relation to the unexpired portion of their notice period or any notice required to be given under their service contracts by making a payment in lieu thereof subject to the deduction of tax and National Insurance. If the Company terminates employment without giving notice and or makes a payment in lieu of any damages to which the Executive might be entitled, the payment is to be calculated in accordance with common law principles, including those relating to mitigation of loss and accelerated receipt.

Directors' Remuneration Report continued

Unaudited information (continued)

Performance graph

The following graph shows the Company's Total Shareholder Return (TSR) performance, compared with the FTSE Real Estate Index, measured in the same way, over the five years ended 30 June 2004. The FTSE Real Estate Index has been selected because the Company believes that the constituent companies comprising the Index are the most appropriate for this comparison as they are affected by similar commercial and economic factors.



Audited information

Directors' remuneration

		Salaries & fees		Bonuses		Taxable benefits		Pension contributions		Total	
	Notes	**2004 £000**	2003 £000	**2004 £000**	2003 £000	**2004 £000**	2003 £000	**2004 £000**	2003 £000	**2004 £000**	2003 £000
Executive Chairman											
I A Ziff		**176**	161	**72**	69	**37**	36	**—**	—	**285**	266
Executive Directors											
E M Ziff		**295**	274	**120**	320	**29**	26	**56**	52	**500**	672
T J Crawford		**161**	145	**66**	153	**20**	19	**37**	33	**284**	350
R A Lewis		**176**	160	**66**	108	**2**	2	**49**	44	**293**	314
J T Sutcliffe		**127**	115	**57**	40	**1**	1	**22**	19	**207**	175
		935	855	**381**	690	**89**	84	**164**	148	**1,569**	1,777
Non-executive Directors											
J M Blackburn	a	**—**	14	**—**	—	**—**	—	**—**	—	**—**	14
C H Lewis	b	**27**	24	**—**	—	**—**	—	**—**	—	**27**	24
R A Smith		**27**	24	**—**	—	**—**	—	**—**	—	**27**	24
		54	62	**—**	—	**—**	—	**—**	—	**54**	62
		989	917	**381**	690	**89**	84	**164**	148	**1,623**	1,839

Notes:

a. J M Blackburn retired from the Board on 11 December 2002.

b. Payments in respect of the services of C H Lewis as a Director include amounts paid to Penloo Consulting Limited, a Company which he controls. There were no amounts outstanding at the year end.

c. At the year end accrued pension contributions, in respect of four Directors of £154,000 (2003: £100,000) were awaiting transfer into the defined contribution scheme.

Audited information (continued)

Directors' interest in shares

The interests of the Directors in the ordinary share capital of the Company are as follows:

		30 June 2004 Number	1 July 2003 Number
I A Ziff	Beneficial	**5,122,961**	5,838,561
	Non-beneficial	**3,541,095**	3,541,095
	As trustee	**3,959,425**	3,842,825
E M Ziff	Beneficial	**7,164,890**	7,102,514
	As trustee	**6,370,716**	6,370,716
	Deferred Annual Bonus Plan	**82,047**	144,223
T J Crawford	Beneficial	**165,027**	111,807
	Deferred Annual Bonus Plan	**42,196**	73,383
R A Lewis	Beneficial	**61,634**	46,040
	Deferred Annual Bonus Plan	**42,195**	57,789
J T Sutcliffe	Beneficial	**10,000**	10,000
C H Lewis	Beneficial	**51,472**	51,472
R A Smith	Beneficial	**24,650**	24,650

The E M Ziff beneficial and trustee interests include 3,541,095 ordinary shares shown held non-beneficially by I A Ziff, 3,959,425 ordinary shares included in I A Ziff's trustee interest and 151,011 ordinary shares included in I A Ziff's beneficial interest.

E M Ziff, T J Crawford, R A Lewis and J T Sutcliffe are Directors of TCS Trustees Limited, trustee of the Deferred Annual Bonus Plan. At 30 June 2004, TCS Trustees Limited held 175,845 ordinary shares (2003: 285,003) on behalf of all participants including those share awards of Executive Directors shown above. No shares will be issued as part of the bonuses for the year ended 30 June 2004.

In addition to the disclosures above, E M Ziff, T J Crawford, R A Lewis and J T Sutcliffe are trustees of the trust holding ordinary shares under the Group's approved Employee Profit Sharing Scheme. At 30 June 2004 the trustees held 23,553 ordinary shares (2003: 97,006) on behalf of all staff participants including Executive Directors. The trustees have no rights to vote with these shares except in accordance with the employees' instructions. The entitlement of I A Ziff, E M Ziff and T J Crawford to 1,659 ordinary shares each under the scheme is included in their respective beneficial interests shown above.

On 9 December 2003, T J Crawford sold 9,130 ordinary shares at 206p at a gain of £9,584.

On 9 July 2004, Non-executive Directors J A Nettleton, purchased 3,940 ordinary shares at 253.75p per share, R A Smith purchased 3,900 ordinary shares at 253.75p and C H Lewis purchased 5,400 ordinary shares at 254.0p.

On 15 July 2004, M A Ziff was appointed Non-executive Director, when his beneficial interest in the ordinary share capital of the Company was 4,831,857 shares and his trustee interest was 6,680,516. Of the trustee interest, 1,591,659 shares are included in E M Ziff's beneficial holding, 366,444 ordinary shares are included in E M Ziff's trustee holding, 3,541,095 shares are included in I A Ziff's non-beneficial holding, 2,312,166 ordinary shares included in I A Ziff's trustee interest and 151,011 shares included in I A Ziff's beneficial holding.

Directors' Remuneration Report continued

Audited information (continued)

Share Incentive Plan (SIP)

Since 30 June 2004 the following directors have acquired shares under the SIP at the price approved at a Board meeting on 7 July 2004.

Name of Director	Partnership shares acquired Number	Price paid Pence	Free matching shares acquired Number	Value of free matching shares Pence	Total shares acquired Number
I A Ziff	594	252.5p	594	252.5p	1,188
E M Ziff	594	252.5p	594	252.5p	1,188
R A Lewis	594	252.5p	594	252.5p	1,188
J T Sutcliffe	594	252.5p	594	252.5p	1,188
R A Smith	594	252.5p	594	252.5p	1,188

T J Crawford and C H Lewis will acquire shares under the SIP in November 2004 at the end of their accumulation period. The number of shares to be acquired cannot be determined until that date.

Executive share option schemes

		1 July 2003 Number	**30 June 2004 Number**	Exercise price Pence	Earliest exercise date	Latest exercise date
E M Ziff	1994 Unapproved	380,511	**380,511**	104.0	Nov – 00	Nov – 07
	1997 Approved	22,727	**22,727**	132.0	Sept – 05	Sept – 12
	SAYE	28,488	**28,488**	64.5	Feb – 06	Aug – 06
T J Crawford	1994 Unapproved	121,671	**116,671**	104.0	Nov – 00	Nov – 07
	1994 Unapproved	65,117	**65,117**	105.5	Jan – 01	Jan – 08
	1997 Approved	22,727	**22,727**	132.0	Sept – 05	Sept – 12
	SAYE	26,162	**—**	64.5	Feb – 04	Aug – 04
R A Lewis	1994 Unapproved	263,288	**263,288**	116.5	Jul – 04	Jul – 11
	1997 Approved	22,727	**22,727**	132.0	Sept – 05	Sept – 12
	SAYE	10,252	**10,252**	138.5	Feb – 10	Aug – 10
J T Sutcliffe	1994 Unapproved	—	**204,897**	224.5	Apr – 07	Apr – 14
	1997 Approved	22,727	**22,727**	132.0	Sept – 05	Sept – 12
	SAYE	11,859	**11,859**	138.5	Feb – 08	Aug – 08

The performance criteria attached to the above share option schemes are set out on page 23.

On 10 July 2003, T J Crawford exercised 5,000 share options under the 1994 Unapproved Scheme at 104.0p, the market price on the date of exercise was 147.5p creating a gain of £2,175.

On 9 March 2004, T J Crawford exercised 26,162 share options under the SAYE Scheme at 64.5p, the market price on the date of exercise was 220.0p creating a gain of £40,682.

On 2 April 2004, J T Sutcliffe was granted 204,897 ordinary shares of 25p at 224.5p under the 1994 Unapproved Executive Share Option Scheme. The earliest and latest exercise dates are April 2007 and April 2014, respectively.

On 8 July 2004, E M Ziff exercised 80,511 share options under the 1994 Unapproved Scheme at 104.0p, the market price on the date of exercise was 252.5p creating a gain of £119,559. Also, T J Crawford exercised 20,000 share options, under the 1994 Unapproved Scheme at 104.0p, the market price on the date of exercise was 252.5p creating a gain of £29,700.

The market price of the Company's ordinary shares at the year end was 254.5p. During the year the market price ranged between 146.5p and 259.5p.

R A Smith
Chairman of the Remuneration Committee
8 September 2004

Independent Auditors' Report

To the members of Town Centre Securities PLC

We have audited the financial statements which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses, the Note of Group Historical Cost Profits and Losses and the related Notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman and Chief Executive's Report, the Property Portfolio, the Directors' Report, Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code, issued in June 1998, specified for our review by the Listing Rules of the Financial Services Authority, 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 to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

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 auditable part of the Directors' Remuneration Report. 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 Company'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 auditable part of the Directors' Remuneration Report 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.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors, Leeds
8 September 2004

Consolidated Profit and Loss Account

year ended 30 June 2004

	Notes	2004 £000	2003 £000
Turnover	2		
Turnover including share of joint venture		**24,468**	24,673
Less share of joint venture		**(87)**	(82)
		24,381	24,591
Operating profit	3		
Group operating profit		**18,896**	19,059
Share of operating profit in joint venture		**84**	81
Total operating profit: Group and share of joint venture		**18,980**	19,140
(Loss)/profit on disposal of properties	4	**(1,457)**	854
Profit before interest		**17,523**	19,994
Net interest payable	6	**(10,954)**	(11,323)
Profit before taxation		**6,569**	8,671
Taxation	7	**(1,716)**	(2,197)
Profit for the financial year	8	**4,853**	6,474
Dividends	9	**(3,362)**	(3,429)
Retained profit for the year	19	**1,491**	3,045
Earnings per ordinary share of 25p each:	10		
Basic		**8.1p**	9.8p
Diluted		**8.0p**	9.7p
Underlying earnings per ordinary share of 25p each:			
Basic		**9.8p**	8.6p
Diluted		**9.7p**	8.5p
Dividend per ordinary share of 25p each	9	**5.9p**	5.5p

All of the above results of the Group derive from continuing operations throughout the year.

Statement of Group Total Recognised Gains and Losses

year ended 30 June 2004

	Notes	2004 £000	2003 Restated £000
Profit for the financial year		**4,853**	6,474
Unrealised surplus on the revaluation of properties	19	**36,598**	16,445
Share of unrealised surplus on the revaluation of joint venture properties	19	**13**	125
Taxation on disposal of revalued properties	19	**—**	(373)
Unrealised surplus on disposal of properties	19	**—**	216
Unrealised surplus/(deficit) on the revaluation of fixed asset investments	19	**65**	(29)
Total recognised gains relating to the year		**41,529**	22,858
Prior year adjustment	19	**(68)**	—
Total recognised gains since last Annual Report		**41,461**	22,858

Note of Group Historical Cost Profits and Losses

year ended 30 June 2004

	Notes	2004 £000	2003 £000
Profit before taxation		**6,569**	8,671
Realisation of investment property revaluation gains	19	**3,746**	4,046
Realisation of gain on disposal of investments	19	**2**	44
Historical cost profit before taxation		**10,317**	12,761
Historical cost retained profit		**5,239**	7,135

Consolidated Balance Sheet

as at 30 June 2004

	Notes	2004 £000	2004 £000	2003 Restated £000	2003 Restated £000
Fixed assets					
Tangible assets	11	**351,737**		324,729	
Investments	12	**383**		320	
			352,120		325,049
Investment in joint venture	12				
Share of gross assets		**1,175**		1,094	
Share of gross liabilities		**(42)**		(44)	
			1,133		1,050
			353,253		326,099
Current assets					
Debtors	13	**2,456**		2,975	
Creditors (due within one year)					
Bank overdraft (secured)		**(3,315)**		(3,619)	
Loan capital (secured)	14	**—**		(8,500)	
Other creditors	15	**(15,314)**		(13,931)	
		(18,629)		(26,050)	
Net current liabilities			**(16,173)**		(23,075)
Total assets less current liabilities			**337,080**		303,024
Creditors (amounts due after more than one year)					
Loan capital (secured)	14		**(126,257)**		(125,812)
Provisions for liabilities and charges	16		**(7,156)**		(6,961)
Net assets			**203,667**		170,251
Capital and reserves					
Called up equity share capital	18		**14,806**		15,765
Share premium account	19		**510**		469
Capital redemption reserve	19		**16,309**		15,327
Special reserve	19		**3,151**		3,151
Property revaluation reserve	19		**138,637**		103,221
Other reserve	19		**157**		311
Profit and loss account	19		**30,097**		32,007
Equity shareholders' funds	20		**203,667**		170,251

Approved by the Board

E M Ziff
8 September 2004

Company Balance Sheet
as at 30 June 2004

	Notes	2004 £000	2004 £000	2003 Restated £000	2003 Restated £000
Fixed assets					
Tangible assets	11	**63,949**		61,789	
Investments	12	**239,799**		208,370	
			303,748		270,159
Current assets					
Cash at bank and in hand		**1,149**		—	
Debtors	13	**52,726**		83,820	
		53,875		83,820	
Creditors (due within one year)					
Bank overdraft (secured)		**—**		(1,239)	
Loan capital (secured)	14	**—**		(8,500)	
Other creditors	15	**(25,875)**		(46,309)	
		(25,875)		(56,048)	
Net current assets			**28,000**		27,772
Total assets less current liabilities			**331,748**		297,931
Creditors (amounts due after more than one year)					
Loan capital (secured)	14		**(126,257)**		(125,812)
Provisions for liabilities and charges	16		**(1,824)**		(1,868)
Net assets			**203,667**		170,251
Capital and reserves					
Called up equity share capital	18		**14,806**		15,765
Share premium account	19		**510**		469
Capital redemption reserve	19		**16,309**		15,327
Special reserve	19		**3,151**		3,151
Property revaluation reserve	19		**11,883**		9,187
Other reserve	19		**81,796**		50,367
Profit and loss account	19		**75,212**		75,985
Equity shareholders' funds	20		**203,667**		170,251

Approved by the Board

E M Ziff
8 September 2004

Consolidated Cash Flow Statement

year ended 30 June 2004

	2004		2003	
	£000	**£000**	£000	£000
Net cash inflow from operating activities (Note 21)		**20,056**		17,394
Dividends received from joint venture		**—**		125
Returns on investments and servicing of finance				
Net interest paid		**(11,163)**		(11,330)
Taxation		**(448)**		(1,836)
Capital expenditure and financial investment				
Purchase of investment properties	**(15,944)**		(5,927)	
Expenditure on development properties	**(1,770)**		(237)	
Purchase of other tangible assets	**(223)**		(277)	
Proceeds from sale of properties	**28,387**		14,555	
Proceeds from sale of listed investments	**217**		—	
Proceeds from sale of other tangible assets	**41**		26	
Purchase of investments	**(185)**		(175)	
Proceeds from sale of own shares held in trust	**—**		142	
Net cash inflow from capital expenditure and financial investment		**10,523**		8,107
Equity dividends paid		**(3,362)**		(3,453)
Net cash inflow before financing		**15,606**		9,007
Financing				
Shares issued on take up of options	**64**		350	
Repurchase of share capital	**(7,366)**		(10,383)	
Loan repayments	**(13,000)**		(2,001)	
New loans	**5,000**		5,000	
Net cash outflow from financing		**(15,302)**		(7,034)
Increase in cash in the year		**304**		1,973

The Group statement of cash flows should be read in conjunction with Note 21 to the Accounts.

Notes to the Accounts

1. Accounting policies

The Accounts are prepared under the historical cost convention as modified by the revaluation of properties and fixed asset investments and in accordance with the Companies Act 1985 and applicable accounting standards.

The principal accounting policies, which have been applied consistently with the exception of the change in accounting policy explained below, are as follows:

a. Change in accounting policy

During the year the Group adopted UITF 38 "Accounting for ESOP Trusts". The adoption of this extract represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting UITF 38 are given in Note 19 to the Accounts.

b. Basis of consolidation

The consolidated accounts incorporate the Accounts of the Company and each of its subsidiary undertakings for the year ended 30 June 2004. Results of subsidiary undertakings acquired or disposed of during the year are consolidated under the acquisition method from or to the date on which control passes.

c. Goodwill

Goodwill arising on acquisitions prior to 30 June 1998 was set off directly against reserves in the year of acquisition. This is in line with the relevant accounting standard on goodwill, FRS 10. This goodwill will remain in reserves until such time as it becomes impaired or the business or businesses to which it relates are disposed of, at which time it will be taken to the profit and loss account. Goodwill arising on subsequent acquisitions is capitalised and amortised on a straight line basis over its useful economic life, up to a maximum of 20 years.

d. Properties

Investment properties are revalued annually and included in the Accounts at open market values. They are held for long-term capital and income growth. Revaluation gains are taken to the Group's revaluation reserve. Temporary revaluation losses are charged to the revaluation reserve, while a permanent deficit on an investment property is charged to the profit and loss account.

Development properties and trading properties are stated at cost or at Directors' previous valuation. Development properties are sites undergoing major development. In the past, certain properties have been valued periodically by professional valuers on an open market, existing use basis. Following the adoption of FRS 15 "Tangible Fixed Assets", no further revaluations will be carried out and previous surpluses will be retained. Trading properties are purchased with the intention of being disposed of in the same financial year.

Interest incurred on development property additions is only capitalised on materially large new build developments with separately identifiable financing arrangements.

e. Profit on disposal of development properties

The profit on disposal of development properties is calculated after attributing direct costs. Direct costs include costs of land or property acquisition, legal expenses, interest and costs of construction. Partial disposal of development properties is calculated after attributing a proportion of total costs.

f. Depreciation and amortisation

In accordance with SSAP 19 "Accounting for Investment Properties", no depreciation or amortisation is provided in respect of freehold and long leasehold investment properties, including fixed plant, which is included in properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Directors consider that this accounting policy is necessary for the Accounts to give a true and fair view. Depreciation or amortisation is only one of the factors reflected in the Accounts' valuation and the amount attributable to this factor cannot be separately identified or quantified. If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation.

Short leasehold properties are amortised over the period of the lease.

Other tangible assets are depreciated at rates appropriate to write off individual assets over their estimated useful lives of between three and ten years.

Notes to the Accounts continued

1. Accounting policies (continued)

g. Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any permanent diminution in value. Listed investments are included in the Accounts at market value. Revaluation gains and losses arising from this method of valuation are credited or charged to the Group's other reserve. Investments in subsidiary undertakings are stated in the Balance Sheet of the Company at valuation. All subsidiaries are valued by the Directors on an annual basis, such that investments are included at the Company's share of net tangible assets. This method of valuation is used by the Directors to give a better indication of the value to the Company of its subsidiary undertakings. Revaluation gains or losses arising from this method of valuation are credited or charged to the Company's other reserve.

h. Joint ventures

A joint venture is defined as an undertaking other than a subsidiary or associated undertaking, in which the Group has a significant influence and is jointly controlled by the joint ventures. Joint ventures are accounted for in the Consolidated Accounts using the gross equity method. The Consolidated Profit and Loss Account includes the Group's share of the pre-tax profits and attributable taxation and the Consolidated Balance Sheet includes the Group's share of the net assets.

i. Pensions

The Group operates a defined contribution pension scheme for all eligible Directors and employees. Pension costs are charged to the profit and loss account in the period to which they relate.

j. Deferred taxation

Deferred tax is provided in full on timing differences that 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. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets when there is no commitment to sell the asset at the year end. 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.

k. Turnover

Turnover, which excludes value added tax, represents the invoiced value of rent and other services supplied to customers outside the Group. Rental income is accounted for as it falls due in accordance with the lease to which it relates. Any lease incentives are spread across the initial period of the lease so as to recognise income evenly up to the date of the first rent review.

l. Employee Share Ownership Trusts

Shares acquired by the Trustees, funded by the Company and held for the continuing benefit of the Company are shown as a reduction in shareholders' funds. Movements in the year arising from additional purchases by the Trustees of shares or the receipt of funds due to the exercise of share options by employees are accounted for within reserves and shown as movements in shareholders' funds in the year. Administration costs of the Trusts are charged to the Company's profit and loss account as incurred.

m. Deferred finance costs

Deferred finance costs are offset against amounts owing on related debt and are amortised over the life of the debt agreement.

2. Segmental analysis

The Group operates in one business segment; property investment, trading and development, wholly in the United Kingdom.

3. Operating profit	**2004** **£000**	2003 £000
Operating profit is arrived at after charging/(crediting):		
Depreciation	**186**	144
Profit on disposal of listed investments	**(31)**	—
Loss/(profit) on disposal of other tangible fixed assets	**1**	(24)
Auditors' remuneration:		
– audit (Company: £16,000 (2003: £16,000))	**30**	30
– non-audit:		
– tax compliance	**47**	47
– tax advisory	**121**	29
– other fees	**24**	20

Net operating expenses of £5,488,000 (2003: £5,533,000) include property related costs of £1,449,000 and administrative costs of £4,039,000 (2003: £1,292,000 and £4,241,000 respectively).

4. Exceptional items

	2004 £000	2003 £000
(Loss)/profit on disposal of properties	**(1,457)**	854

The loss or profit on disposal of properties is calculated as the difference between the previous valuation and proceeds, net of costs of disposal. The tax credit on the exceptional loss amounts to £410,000 (2003: tax charge £220,000).

5. Employees

	2004 £000	2003 £000
Salaries, wages and bonuses (including Directors' emoluments)	**2,367**	2,591
Social security costs	**261**	273
Other pension costs	**203**	193
Employees' profit share scheme	**25**	25
	2,856	3,082

The aggregate remuneration of the Directors of the Company for the year was £1,623,000 (2003: £1,839,000). Further details of Directors' remuneration and their share options including those of the highest paid Director, E M Ziff, are included on pages 24 to 26, in the auditable part of the Directors' Remuneration Report.

The average monthly number of employees during the year was 69 (2003: 72). The Group operates a pension arrangement for the benefit of all eligible Directors and employees, which is in the nature of a defined contribution scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The above costs include wages recovered from tenants through service charges of £496,000 (2003: £438,000).

6. Net interest payable

	2004 £000	2003 £000
Interest payable		
Interest on and amortisation of debenture loan stock	**8,870**	8,875
Interest on other loans	**—**	69
Interest on bank loans and overdrafts	**2,121**	2,423
	10,991	11,367
Interest receivable		
Share of joint venture interest receivable	**(2)**	(3)
Other interest receivable	**(35)**	(41)
	(37)	(44)
Net interest payable	**10,954**	11,323

Interest payable on loans repayable after five years, included in the above, is in respect of the debenture loan stock, which amounts to £8,870,000 (2003: £8,875,000) net of amortisation of debenture premium.

Notes to the Accounts continued

7. Taxation

	2004 £000	2003 £000
Based on the Group profit at 30% (2003: 30%)		
Corporation tax:		
Group	**1,793**	1,404
Joint venture	**16**	16
	1,809	1,420
Deferred tax	**295**	927
	2,104	2,347
Prior year:		
Corporation tax	**(288)**	(1,029)
Deferred tax	**(100)**	879
	(388)	(150)
	1,716	2,197

The Group allocates the tax charge arising on the sale of investment properties between the gain previously recognised in the revaluation reserve and the further gain or loss arising on the sale in the profit and loss account. For the year ended 30 June 2004, the taxation on the disposal of revalued properties is £nil (2003: £373,000).

The Directors estimate that a tax liability of £15.1m would arise in the Group (2003: £9.7m), Company £2.5m (2003: £2.0m), if the revalued assets were disposed of at the amount stated in the Accounts.

The aggregate current corporation tax charge is £1,521,000 (2003: £391,000) and is therefore lower than the standard rate of corporation tax in the UK (30%). The differences are explained as follows:

	2004 £000	2003 £000
Profit on ordinary activities before tax	**6,569**	8,671
Profit on ordinary activities multiplied by the standard rate in the UK 30% (2003: 30%)	**1,971**	2,601
Effects of:		
Adjustments to tax charge in respect of prior periods	**(288)**	(1,029)
Permanent differences	**49**	(140)
Accelerated capital allowances	**(298)**	(927)
Non-qualifying profit plus chargeable gains arising on disposal	**87**	(114)
Current tax charge for the year	**1,521**	391

8. Profit for the financial year

Town Centre Securities PLC has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the consolidated profit for the financial year dealt with in the Accounts of the parent undertaking is £5,790,000 (2003: £8,637,000).

9. Dividends

	2004 £000	2003 £000
Interim paid 1.8p per share (2003: 1.65p)	**1,066**	1,046
Final proposed 4.1p per share (2003: 3.85p)	**2,428**	2,428
Over provision for prior year dividend	**(132)**	(45)
	3,362	3,429

10. Earnings per share (EPS)

	2004			2003		
	Earnings £000	**Weighted average number of shares '000**	**Earnings per share Pence**	Earnings £000	Weighted average number of shares '000	Earnings per share Pence
Basic EPS						
Earnings and earnings per share	**4,853**	**60,367**	**8.1**	6,474	66,329	9.8
Effect of dilutive securities						
Options	—	**266**	**(0.1)**	—	297	(0.1)
Diluted EPS	**4,853**	**60,633**	**8.0**	6,474	66,626	9.7
Basic EPS	**4,853**	**60,367**	**8.1**	6,474	66,329	9.8
Exceptional loss/(profit) on disposal of properties (after tax)	**1,047**	—	**1.7**	(634)	—	(1.0)
Prior year tax adjustment	—	—	—	(150)	—	(0.2)
Underlying EPS	**5,900**	**60,367**	**9.8**	5,690	66,329	8.6
Diluted EPS	**4,853**	**60,633**	**8.0**	6,474	66,626	9.7
Exceptional loss/(profit) on disposal of properties (after tax)	**1,047**	—	**1.7**	(634)	—	(1.0)
Prior year tax adjustment	—	—	—	(150)	—	(0.2)
Diluted underlying EPS	**5,900**	**60,633**	**9.7**	5,690	66,626	8.5

Underlying earnings and earnings per share have been disclosed in order that the effects of exceptional items and prior year taxation on reported earnings can be fully appreciated.

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has three classes of dilutive potential ordinary shares: those under the Executive Share Option Plan, the Share Incentive Plan and the Save As You Earn Scheme.

11. Tangible fixed assets

Investment properties at valuation

	Company			Group	
	Freehold £000	Long leasehold £000	Short leasehold £000	Freehold £000	Long leasehold £000
Valuation at 1 July 2003	42,997	3,728	2,909	294,661	17,085
Additions	519	—	—	12,269	3,675
Disposals	(2,545)	—	—	(27,287)	—
Increase in value on revaluation	3,472	25	—	35,148	1,450
Amortisation	—	—	(484)	—	—
Valuation at 30 June 2004	**44,443**	**3,753**	**2,425**	**314,791**	**22,210**
Total valuation at 30 June 2004			**50,621**		**337,001**

The above freehold and long leasehold investment properties have been revalued as at 30 June 2004 on the basis of open market value by Jones Lang LaSalle (£333,652,000) in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Investment Manual. Certain other freehold properties have been valued at £3,349,000 by the Directors (2003: £6,141,000).

Development properties

	Company freehold £000	Group freehold £000
Cost/previous valuation at 1 July 2003	11,697	12,525
Additions	1,190	1,770
Cost/previous valuation at 30 June 2004	**12,887**	**14,295**

Fixtures, equipment and motor vehicles

	Company		Group	
	Cost £000	Depreciation £000	Cost £000	Depreciation £000
At 1 July 2003	1,376	918	1,376	918
Additions	223	—	223	—
Disposals	(84)	(30)	(84)	(30)
Depreciation charge for the year	—	186	—	186
At 30 June 2004	**1,515**	**1,074**	**1,515**	**1,074**
Net book value at 30 June 2004		**441**		**441**
Total tangible fixed assets		**63,949**		**351,737**

The historical cost of tangible assets amount to: Group £214.2m (2003: £222.5m); Company £53.2m (2003: £53.5m). The depreciated historical cost of tangible assets amounted to: Group £213.1m (2003: £221.6m); Company £52.1m (2003: £52.6m).

11. Tangible fixed assets (continued)

Capital commitments

	2004		2003	
	Company £000	**Group £000**	Company £000	Group £000
Expenditure contracted not provided	**—**	**—**	252	252

12. Fixed asset investments

	Shares in/ loans to subsidiary undertakings £000	Joint ventures £000	Listed investments £000	Total £000
Company				
At 1 July 2003	207,096	1,050	224	208,370
Additions	—	—	185	185
Disposals	—	—	(187)	(187)
Increase on revaluation	31,293	83	55	31,431
At 30 June 2004	**238,389**	**1,133**	**277**	**239,799**
Historic cost				
At 1 July 2003	169,244	1	206	169,451
At 30 June 2004	**169,244**	**1**	**204**	**169,449**
Group				
At 1 July 2003	—	1,050	320	1,370
Share of net profit for the year	—	70	—	70
Additions	—	—	185	185
Disposals	—	—	(187)	(187)
Increase on revaluation	—	—	65	65
Increase on revaluation of investment properties	—	13	—	13
At 30 June 2004	**—**	**1,133**	**383**	**1,516**
Historic cost				
At 1 July 2003	—	1	227	228
At 30 June 2004	**—**	**1**	**225**	**226**

Details of subsidiary undertakings and joint ventures are provided in Note 22 to the Accounts.

Notes to the Accounts continued

13. Debtors

	2004		2003	
	Company £000	**Group £000**	Company £000	Group £000
Trade debtors and prepayments	**518**	**2,456**	547	2,975
Amounts owed by subsidiary undertakings	**52,208**	**—**	77,779	—
Corporation tax	**—**	**—**	5,494	—
	52,726	**2,456**	83,820	2,975

14. Loan capital (secured)

Group and Company	Maturity date	**2004 £000**	2003 £000
Parent undertaking			
10.5% First Mortgage Debenture Stock	2021	**87,257**	87,312
Bank loans	2004	**—**	8,500
	2005	**—**	18,500
	2008	**25,000**	20,000
	2009	**14,000**	—
		126,257	134,312
Less amounts repayable within one year		**—**	(8,500)
		126,257	125,812

The debenture mortgages and bank loans are secured by fixed charges on properties, valued at £294.3m (2003: £250.7m) owned by the Company and its subsidiary undertakings.

15. Other creditors

	2004		2003 Restated	
	Company £000	**Group £000**	Company £000	Group £000
Trade creditors and accruals	**3,683**	**8,813**	5,321	8,394
Other taxation and social security	**21**	**21**	105	114
Proposed dividend	**2,428**	**2,428**	2,428	2,428
Amounts owed to subsidiary undertakings	**18,313**	**—**	38,455	—
Corporation tax	**1,430**	**4,052**	—	2,995
	25,875	**15,314**	46,309	13,931

16. Provisions for liabilities and charges

	2004 £000	2003 £000
Company		
Tax effect of timing differences:		
Accelerated capital allowances	**1,872**	1,909
Short-term timing differences	**(48)**	(41)
Total deferred tax liability	**1,824**	1,868
1 July 2003	**1,868**	1,791
Deferred tax (credit)/charge in the profit and loss account	**(44)**	77
At 30 June 2004	**1,824**	1,868
Group		
Tax effect of timing differences:		
Accelerated capital allowances	**7,204**	7,002
Short-term timing differences	**(48)**	(41)
Total deferred tax liability	**7,156**	6,961
1 July 2003	**6,961**	5,155
Deferred tax charge in the profit and loss account (Note 7)	**195**	1,806
At 30 June 2004	**7,156**	6,961

Factors that may affect future tax charges
No provision has been made for deferred tax on gains recognised on the revaluation of properties to market value as there is no commitment to sell at the year end.

17. Financial instruments

The Group finances its operations through a combination of retained cash flows, debentures and bank borrowings. Procedures are in place to monitor interest rate risk as considered appropriate by management. The Group has taken advantage of the exemption that short-term debtors and creditors be excluded from the following disclosures.

All financial liabilities are denominated in Sterling.

Notes to the Accounts continued

17. Financial instruments (continued)

Liquidity risk

The maturity profile of the Group's financial liabilities is set out below:

	As at 30 June 2004			As at 30 June 2003		
	Bank borrowings £000	**Debenture stock £000**	**Total £000**	Bank borrowings £000	Debenture stock £000	Total £000
In one year or less or on demand	**3,315**	**—**	**3,315**	12,119	—	12,119
In more than one year but not more than two years	**—**	**—**	**—**	18,500	—	18,500
In more than two years but not more than five years	**39,000**	**—**	**39,000**	20,000	—	20,000
In more than five years	**—**	**85,000**	**85,000**	—	85,000	85,000
	42,315	**85,000**	**127,315**	50,619	85,000	135,619
Debenture issue premium allocated to future periods	**—**	**2,257**	**2,257**	—	2,312	2,312
Gross financial liabilities	**42,315**	**87,257**	**129,572**	50,619	87,312	137,931

The debenture issue premium is net of issue costs and is amortised over the life of the debt agreement. During the year £55,000 was credited to the profit and loss account (2003: £50,000). As at 30 June 2004, the unamortised element of the debenture issue premium amounted to £2,257,000 (2003: £2,312,000).

The Group has undrawn committed floating rate bank borrowing facilities as set out below:

	2004 £000	2003 £000
Expiring in one year or less	**14,185**	15,381
Expiring in more than one year	**18,500**	9,000
	32,685	24,381

The facilities expiring in one year or less are overdraft facilities subject to annual review. Other facilities are available to provide funding for future investments.

Interest rate risk

The interest rate risk of the Group's financial liabilities is as follows:

	As at 30 June 2004			As at 30 June 2003		
	Nominal value £000	**Weighted average rate %**	**Weighted average period Years**	Nominal value £000	Weighted average rate %	Weighted average period Years
Debenture stock	**85,000**	**10.5**	**16.70**	85,000	10.5	17.70
Bank floating rate liabilities	**42,315**			50,619		
	127,315			135,619		

Floating rate financial liabilities bear interest at rates based on LIBOR plus a margin of 0.65% – 1.00%. Throughout the year the Group has not entered into any hedging arrangements to manage its interest rate exposure.

17. Financial instruments (continued)

Fair values

The fair values of the Group's financial liabilities are set out below:

	As at 30 June 2004		As at 30 June 2003	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Debenture stock	**87,257**	**106,371**	87,312	109,650
Bank borrowings	**42,315**	**42,315**	50,619	50,619
	129,572	**148,686**	137,931	160,269

The fair values are determined by prices available from the market on which the financial liability is traded. Bank borrowings approximate fair value due to the relatively short maturity of the instruments.

Financial instruments held for trading purposes

It is, and has been throughout the period under review, the Group's policy not to trade in financial instruments.

Foreign currency exposure

The Group has no exposure to foreign currency as it has no overseas operations and all sales and purchases are made in Sterling.

18. Called up equity share capital

Authorised

164,879,000 (2003:164,879,000) ordinary shares of 25p each.

Issued and fully paid

	Number of shares '000	Nominal value £000
At 1 July 2003	63,062	15,765
Buy-back of own shares	(3,926)	(982)
Issued on take-up of options	92	23
At 30 June 2004	**59,228**	**14,806**

During the year the Company purchased 3,926,360 ordinary shares in the market for cancellation.

Date of purchase	Number of shares '000	Nominal value £000	Price per share Pence	Total consideration £000	Percentage of current issued share capital %
3 July 2003	250	63	148	372	0.42
15 October 2003	3,011	753	180	5,415	5.08
9 December 2003	9	2	211	19	0.02
11 December 2003	100	25	210	210	0.17
12 May 2004	256	64	244	624	0.43
19 May 2004	100	25	242	242	0.17
25 May 2004	100	25	242	242	0.17
1 June 2004	100	25	242	242	0.17
	3,926	**982**		**7,366**	**6.63**

Notes to the Accounts continued

18. Called up equity share capital (continued)

The exercise of all options outstanding at 30 June 2004 would result in the issue of a further 1,270,173 ordinary shares, analysed as follows:

	Options outstanding at 30 June 2004 Number	Exercise dates	Exercise price Pence
1994 Unapproved Executive Share Option Scheme	1,030,484	Nov 00 – Apr 14	104.0 – 224.5
1997 Executive Share Option Scheme	179,930	Apr 01 – Sept 12	66.5 – 132.0
Save As You Earn Schemes 1995 – 2002	59,759	Jul 01 – Aug 10	64.5 – 138.5
	1,270,173		

19. Reserves

	Share premium account £000	Capital redemption reserve £000	Special reserve £000
Company and Group			
At 1 July 2003	469	15,327	3,151
Arising on issue of shares	41	—	—
Arising on purchase and cancellation of own shares	—	982	—
At 30 June 2004	**510**	**16,309**	**3,151**

	Property revaluation reserve £000	Other reserve £000	Profit and loss account £000
Company			
At 1 July 2003 as previously reported	9,187	50,391	76,116
Prior period adjustment	—	(24)	(131)
At 1 July 2003 restated	**9,187**	**50,367**	**75,985**
Retained profit for the year	—	—	5,790
Increase in value on revaluation of properties	3,497	—	—
Arising on disposal of investment properties	(801)	—	801
Revaluation of investments in subsidiary undertakings	—	31,376	—
Arising on purchase and cancellation of own shares	—	—	(7,366)
Increase in market value of fixed asset investments	—	55	—
Arising on disposal of investments	—	(2)	2
At 30 June 2004	**11,883**	**81,796**	**75,212**

19. Reserves (continued)

	Property revaluation reserve £000	Other reserve £000	Profit and loss account £000
Group			
At 1 July 2003 as previously reported	103,221	335	32,138
Prior period adjustment	—	(24)	(131)
At 1 July 2003 restated	**103,221**	**311**	**32,007**
Retained profit for the year	—	—	1,491
Increase in value on revaluation of properties	36,598	—	—
Increase in value on revaluation of joint venture properties	13	—	—
Arising on disposal of investment properties	(3,746)	—	3,746
Revaluation deficit from previous period realised on disposal of investment properties	2,551	—	—
Arising on disposal of investments	—	(2)	2
Arising on purchase and cancellation of own shares	—	—	(7,366)
Increase in market value of fixed asset investments	—	65	—
Transfer from other reserves	—	(217)	217
At 30 June 2004	**138,637**	**157**	**30,097**

The other reserve represents revaluation surpluses on investments.

In respect of own shares held, UITF 38 "Accounting for ESOP Trusts", issued in December 2003, has been adopted for the year ended 30 June 2004. The abstract requires any investment in own shares by the Company to be recorded as a reduction in shareholders' funds. The adoption of UITF 38 has resulted in a reduction in shareholders' funds of £131,000 (2003: £155,000) and a decrease in the total recognised gains and losses of £174,000 (2003: £23,000).

The adoption of UITF 38 has no impact on the profit and loss account for the year ended 30 June 2004 (2003: £nil).

20. Reconciliation of movements in equity shareholders' funds

	Company £000	Group £000
(Loss)/profit for the financial year	(7,626)	4,853
Dividends receivable/(payable)	13,416	(3,362)
	5,790	1,491
Arising on purchase and cancellation of own shares	(7,366)	(7,366)
New share capital subscribed	64	64
Surplus on property revaluation	3,497	36,598
Surplus on joint venture property revaluation	—	13
Revaluation of investments in subsidiary undertakings	31,376	—
Revaluation deficit from previous period realised on disposal of investment properties	—	2,551
Surplus on revaluation of fixed asset investments	55	65
Net increase in shareholders' funds	**33,416**	**33,416**
Opening equity shareholders' funds (originally £170,406,000 before deducting prior year adjustment of £155,000)	170,251	170,251
Closing equity shareholders' funds	**203,667**	**203,667**

Notes to the Accounts continued

21. Notes to the Consolidated Cash Flow Statement

a. Reconciliation of operating profit to net cash inflow from operating activities

	2004 £000	2003 £000
Operating profit	**18,896**	19,059
Depreciation	**186**	144
Loss/(profit) on sale of fixed assets	**1**	(24)
Profit on sale of investments	**(31)**	—
Decrease/(increase) in debtors	**519**	(46)
Increase/(decrease) in creditors	**485**	(1,739)
Net cash inflow from operating activities	**20,056**	17,394

b. Analysis of changes in net debt

	As at 1 July 2003 £000	Cash flow £000	Other non-cash movements £000	**As at 30 June 2004 £000**
Bank overdraft	(3,619)	304	—	**(3,315)**
Loan capital due within one year	(8,500)	8,500	—	**—**
Loan capital due after more than one year	(125,812)	(500)	55	**(126,257)**
Net debt	(137,931)	8,304	55	**(129,572)**

The other non-cash movement represents the amortisation of debenture issue premium of £55,000.

c. Reconciliation of net cash flow to movement in net debt

	2004 £000	2003 £000
Decrease in bank overdraft	**304**	1,973
Net decrease/(increase) in loan capital	**8,000**	(2,999)
Other non-cash movements	**55**	51
Change in net debt	**8,359**	(975)
Opening net debt	**(137,931)**	(136,956)
Closing net debt	**(129,572)**	(137,931)

22. Additional information – subsidiaries

The Company's wholly owned active subsidiary undertakings at 30 June 2004, registered in England and operating in the United Kingdom, are as follows:

TCS (Bothwell Street) Limited	Property investment
TCS Freehold Investments Limited	Property investment
TCS (Greenhithe) Limited	Property investment
TCS (Isleworth) Limited	Property investment
TCS Holdings Limited	Property investment
TCS Leasehold Investments Limited	Property investment
TCS (Mill Hill) Limited	Property investment
TCS Parliament Street (1) Limited	Property investment
TCS Parliament Street (2) Limited	Property investment
TCS Properties Limited	Property investment
TCS (Residential) Limited	Property investment
TCS Trustees Limited	Trustee for employee share option plan
TCS Residential Conversions Limited (formerly TCS (Vassalli) Limited)	Management company
TCCP PLC	Management company

The Company's joint venture which is also registered in England and operates in the United Kingdom:

	Portion of ordinary shares held	
Buckley Properties (Leeds) Limited	50%	Property investment

The results of the joint venture have been consolidated in the Group based on the financial statements for the year ending 31 March 2004.

The Group has taken advantage of the exemption available under FRS 8 "Related Party Disclosures" from disclosing transactions between related parties within the Group.

Valuers' Report

The Directors
Town Centre Securities PLC
Town Centre House
The Merrion Centre
Leeds LS2 8LY

Dear Sirs

28 July 2004

Town Centre Securities PLC – Property Portfolio Valuation – 30 June 2004
In accordance with your written instructions we have inspected and valued the various leasehold and freehold properties held by Town Centre Securities PLC and its various subsidiary companies, for accounts purposes as at 30 June 2004.

The valuations have been prepared in accordance with the Practice Statements contained within the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards, in our capacity as external valuers, on the basis of Market Value. No allowances have been made for expenses of realisation or for taxation that might arise in the event of a disposal deemed or otherwise. All rental and capital values stated are exclusive of Value Added Tax. Each property has been considered as if free and clear of all mortgages or other charges which may have been secured thereon. Where the properties are located in a Disadvantaged Area we have reflected the availability of Stamp Duty Relief in our valuations. The interests have been valued subject to and with the benefit of any lettings which have been disclosed.

Having regard to the forgoing we are of the opinion that the aggregate Market Value of the freehold and leasehold interests owned by the Group as at 30 June 2004 subject to and with the benefit of the tenancies currently subsisting were as follows:

Freehold	£311,442,500
Leasehold	£22,210,000
Total	**£333,652,500**

In accordance with our standard practice, we confirm that our valuations have been prepared for Town Centre Securities PLC and for the purpose to which this certificate refers. No responsibility is accepted to any third party in respect of the information or advice contained therein, except in circumstances where our prior written approval has been granted.

Yours faithfully

Alistair Russell MRICS
European Director
For and on behalf of Jones Lang LaSalle Limited

Town Centre Securities in the Community

We have for many years supported a number of charities and currently we have decided to support four particular causes. We understand that many charitable causes are short of funding but sadly we are unable to support all the requests we receive for help. For the time being the charities which will receive our attention and efforts are: The Leeds Jewish Welfare Board, the NSPCC, Lionheart and the Variety Club of Great Britain.

The Leeds Jewish Welfare Board is a voluntary organisation providing a comprehensive range of social, residential and day care services to the Jewish community of Leeds and the surrounding areas. We continue to support the redevelopment of the Queenshill Day Centre in North Leeds which is used by old people as a traditional day centre and as a learning centre for those people within the Welfare Board's care who suffer with severe disabilities.

The NSPCC aims to end cruelty to children within a generation. The NSPCC FULL STOP campaign is a major step towards creating the will to prevent child abuse through campaigning and fundraising for new services. We at Town Centre Securities support the fight against child abuse and are aiming to continue to support this excellent effort to help and protect children in West Yorkshire.

Lionheart helps members of the RICS and their dependents through a variety of confidential services. Financial help by grant or loan to those suffering hardship can be provided together with confidential advice. Each year Lionheart helps more than 2,500 people through a network of 260 members who volunteer their time to serve as stewards visiting those in need.

The primary mission of the Variety Club of Great Britain is to raise money for disabled and disadvantaged children. The money goes towards buying Sunshine coaches, electric wheelchairs, specially adapted computers and to support other projects which improve the quality of life for some of the country's unluckiest youngsters.

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