Capital & Regional plc
Annual report 2003

Contents

Capital & Regional at a glance . . . what we do

- C&R is a co-investing property asset manager. We manage funds and partnerships in which we hold a significant stake.
- We have assembled specialist management teams operating in the retail and leisure sectors.
- This enables our equity and management to be leveraged over a large portfolio, and enhances returns to shareholders.

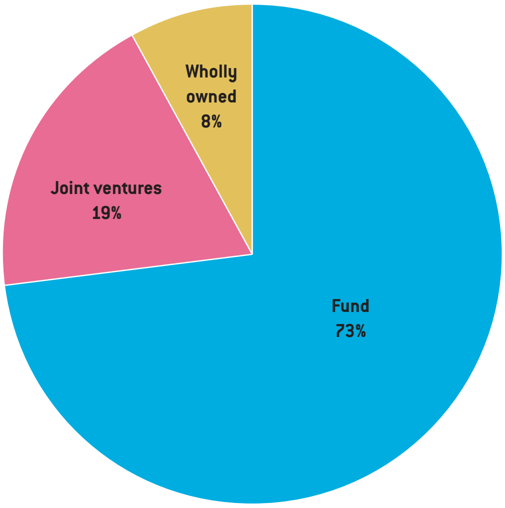
Capital & Regional

Shopping centres	Retail parks			Leisure		
The Mall Fund	The Junction Fund	The Glasgow Fort	Swansea Retail Park	The X-Leisure Fund	Xscape	Great Northern
the mall	the JUNCTION			X-LEISURE		

Capital & Regional at a glance . . . what we have

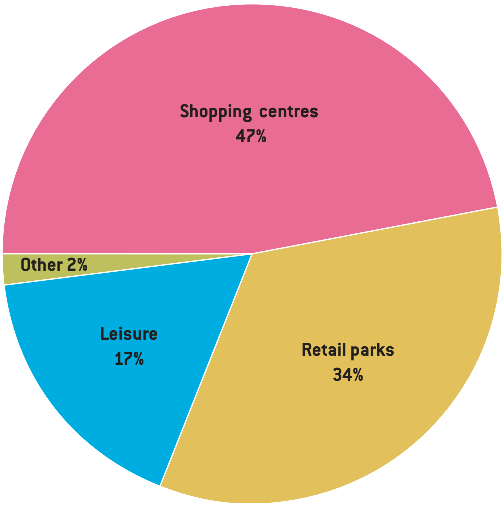
- Most of our portfolio is held in the form of fund holdings.

Group exposure to property by ownership structure



- Our largest investment is in shopping centres.

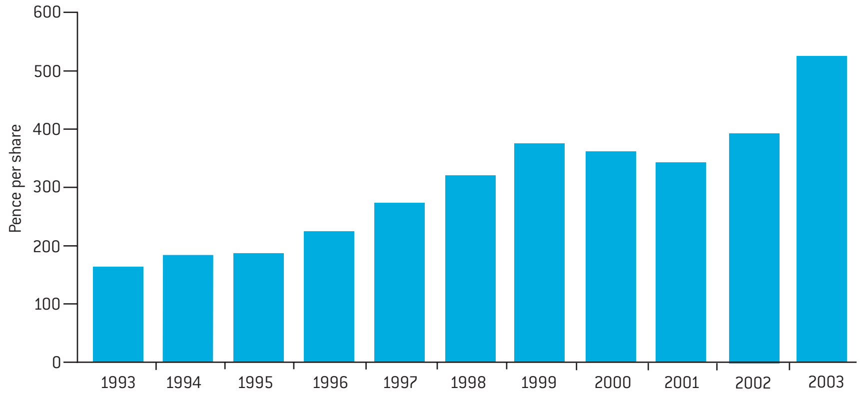
Group exposure to property by type



Capital & Regional at a glance . . . how we performed

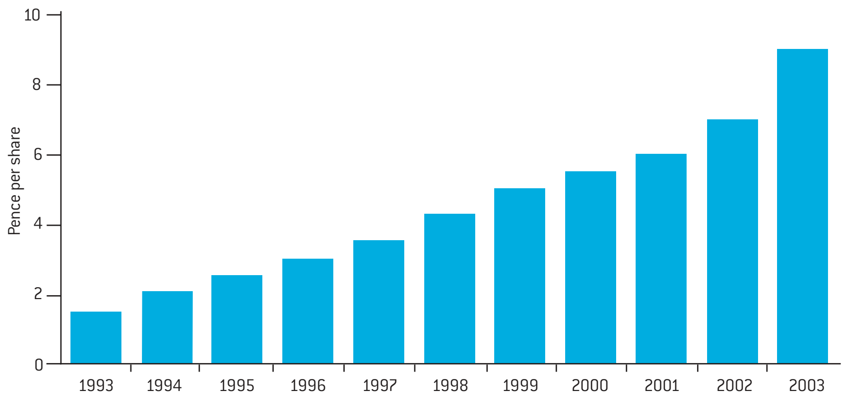
- Our NAV per share has grown by an average of 13% over the past ten years.

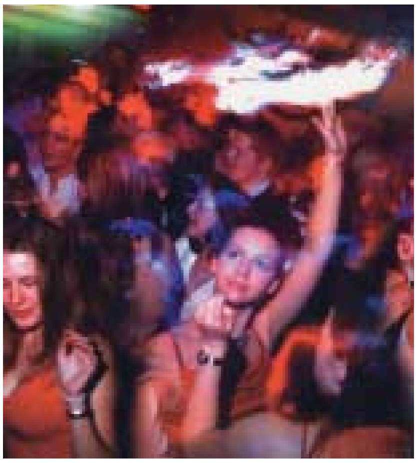
Growth in adjusted fully diluted net asset value (NAV) per share



- Our dividend per share has grown at an average rate of 20% over the past ten years.

Dividend growth





Chairman's statement

I am delighted to be able to introduce an excellent set of results for 2003. Our return on equity for 2003 was 37.6% (2002: 14.6%). This is well above our ten-year average which stands at close to 16%.

These results are attributable to the strong general performance of the retail property sector during the year, and to the creation of value through proactive asset management. The property management and performance fees we have earned made a significant contribution to the overall result.

We manage almost £3 billion of retail and leisure property assets, with nearly £1 billion of equity investment in our funds from third-party institutions. We aim to provide those investors with a combination of proactive property management skills and investment vehicles and capital structures which best meet their needs.

Management

We point to strong management teams in three distinct sectors of the property market: shopping centres, retail parks and urban entertainment complexes. Each has a substantial portfolio to manage, clear benchmarks and targets, and strong strategic guidance resulting from our partnerships with major institutional fund managers.

Both the retail and leisure markets which we serve and the capital markets through which we operate, are fast-moving. Our management team has responded vigorously to these dynamics and the Company's performance results from their efforts. I believe that the expertise they have established will continue to deliver strong returns from our existing portfolios, and the resulting track record will attract new investors to our funds.

Directors

During 2003 we appointed two new non-executive directors who bring significant experience to our main Board. Hans Mautner is president of the international division of Simon Property Group, a US REIT with a total market capitalisation in excess of $25 billion invested in retail property assets. He has been appointed Chairman of the Remuneration Committee. Paul Stobart is the managing director of Sage UK. He is a chartered accountant and has been appointed Chairman of the Audit Committee.

Peter Duffy, who has served nine years as a non-executive director this year, will sadly be retiring at the 2004 AGM. He has provided a major contribution to the Company and will be greatly missed.

Dividend

The Board is recommending a final dividend of 5p per share bringing the total for the year to 9p (2002: 7p). We plan to continue to increase the dividend in line with sustainable earnings.

Tom Chandos

Tom Chandos
Chairman

Chief Executive's review

2004 has started very well. There has been much positive activity within the Group and we are optimistic that we will see another year of strong returns.

Results

Our 2003 results are the first for a full year of our new business model. Financial highlights include:

- Total returns, including revaluation surplus and after tax, were £101.6 million (2002: £37.1 million) providing a return on equity of 37.6%
- Profit before tax was £26.3 million (2002: £2.1 million)
- Earnings per share were 31.4p (2002: 1.3p)
- Adjusted fully diluted NAV per share was 521p (2002: 392p). A 33% increase.

Our business model

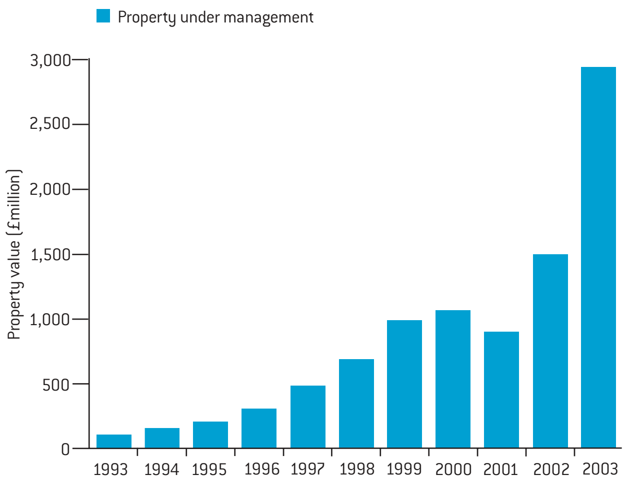
The Company has committed itself to its new business model, as a co-investing asset manager, and has now completed nearly two years in this shape. 92% of our assets are now invested through funds or partnerships which we manage under management contracts.

Our fund model is proving attractive to institutional investors. Both the Mall and Junction funds have nearly doubled in size during the last two years.

Following the acquisition of management contracts for three funds from MWB at the end of January last year, we have now merged those three funds into one to be known as the X-Leisure Fund. This fund has initially a 15-year life with an option to extend for a further five years. Hermes has accepted the role of fund manager and we have been appointed as the property asset manager.

Our relationships with Morley (fund manager of both the Mall and Junction Funds) and Hermes are proving valuable. They bring a strategic overview and discipline to the funds, thereby enhancing the funds' appeal to other investors.

We treat our properties as living businesses. We recognise that our success depends upon occupiers trading profitably. The scale of our portfolios is providing our occupiers with the opportunity to upsize or downsize within our portfolio with great flexibility.



Chief Executive's review

Our portfolio

In the mid to late 1990s we anticipated a period of low inflation and decided to focus our efforts on properties which were visited by the public and where they left behind money in the tills of our occupiers. By intensively managing these properties both in the physical sense and by making them exciting and interesting places to visit and spend time in, we hoped that our occupiers would take more money and therefore rental values would advance faster than the economy as a whole. This is proving to be so. Currently our equity is invested in 15 shopping centres, 16 retail parks and 18 urban entertainment complexes.

Strong teams

We are proud of the strength, depth and focus of our management teams. We have three specialised teams focused on shopping centres, retail parks and leisure. Each is self contained with its own marketing, accounting and facilities management capabilities. The central team is responsible for fund development and expansion, new partnerships, group accounting and IT.

Almost 600 people are employed by the Group and at the properties which it manages. The asset management model enables us to demonstrate the productivity of these people. Our Group overhead is covered by our recurring fee income. Performance fees are now substantial and provide a pool for incentivising management.

Property investment funds

In the Budget on 17 March the Chancellor announced his intention to consult on the creation of a tax transparent property investment fund (PIF). We will follow this process with considerable interest.

The Government has issued a consultation document inviting responses from interested parties. C&R, both directly and working through property industry bodies, will be making strong representations on a number of important issues. We will be advocating, in particular, an approach which allows PIFs to operate in a flexible regulatory environment, similar to that enjoyed by REITs in the US. Issues such as gearing, management structure and the level of development activity should, to a large extent, be determined by the market rather than by regulation.

Shareholders may remember that C&R floated its US operations on the American market as a REIT in 1993 and I have chaired CenterPoint Properties Trust, as the company is called, since its flotation. Over the ten-year period it has been one of the best performing REITs in America and is now capitalised at over $3 billion. I believe that if the Government avoids an over-prescriptive vehicle, there will be a ready appetite from investors not only in the UK, but from all over the world, providing at last significant long-term equity to the quoted property market.

If such long-term equity was available, I believe that the Government would find many of its broader objectives met. In particular, it would be easier for the industry to offer flexible leases to occupiers. One of the problems with a market heavily dependent upon debt finance is that the longer the lease, the easier it is to finance. A new supply of equity would help the property industry provide the desired flexibility.

Market overview

During 2003 we saw substantial rises in the value of retail investment properties, driven by increasing institutional allocations and low interest rates. These trends may continue in 2004, as property still offers income returns which exceed interest rates, and the prospect of growth. I cannot recall another time during the past 40 years when the argument for investment has been so strong.

Future prospects

2004 has started very well. There has been much positive activity within the Group and we are optimistic that we will see another year of strong returns.

Martin Barber

Martin Barber
Chief Executive

Finance Director's review

This section of the annual report comments on the build-up of the figures and highlights the reasons for the strong results.

Return on equity

We follow our total return on equity figure closely for a number of reasons:

- It includes revaluation surpluses as well as profit and loss account items
- It is easily measured from the STRGL, a primary statement (page 34)
- It is closer than most other measures to reflecting shareholder returns.

In 2003 our return on equity was 37.6%. The largest contribution came from the revaluation surplus, but this year accounting profits were also significant.

	2003 £m	2002 £m
Profit before tax and exceptionals	26.3	10.8
Exceptional items	–	(8.7)
Gains taken through reserves	85.9	40.2
	112.2	42.3
Tax	(10.6)	(5.2)
Total return for the year	101.6	37.1
Equity shareholders' funds	270.0	253.1
Return on equity (see note 31)	37.6%	14.6%

Drivers of value

The strong returns have been driven by a number of factors:

- Our management and performance fees
- Strong ERV growth in both the Mall and Junction Funds
- Stamp duty savings benefits arising from our properties in disadvantaged areas
- A significant contribution from our joint venture development programme, which includes the Glasgow Fort and the two Xscapes at Milton Keynes and Castleford.

Return on principal investments

The total return can also be broken down by investment as follows:

	Weighted average investment during 2003 £m	Total return £m	Return on equity* invested
Fund investments – Mall	102.7	53.1	51.7%
– Junction	64.5	24.3	36.6%
– Leisure	13.0	1.0	7.9%
Joint venture investments	33.9	18.3	53.9%
Wholly owned investments	64.0	8.4	13.1%
Loan stock – CULS	(24.6)	(1.7)	
Assets business total	253.6	103.5	40.8%
Management fees		15.7	
Performance fees		13.3	
Goodwill amortisation		(1.2)	
Snozone profit		0.4	
Earnings business total	16.4	28.3	172.6%
Total	270.0	131.7	48.8%
Management expenses		(19.5)	
Taxation		(10.6)	
Total return for the year	270.0	101.6	37.6%

* Return on equity is calculated on cost at the beginning of the year plus time weighted additions to share capital (excluding share options) less reductions in share capital.

The table shows how our equity has been deployed, and the returns on the different elements. For example the Mall Fund achieved a property level return of 21.7% driven by asset management initiatives and some favourable yield shift. Including fund level gearing this increased to 33.5%. Including gearing at Group level the return on net equity invested was 51.7%.

The returns on the earnings business are also high. This is partly because the capital invested is low, primarily the goodwill arising on the acquisition of the leisure fund management business, and partly because we do not allocate our management expense between the assets and earnings businesses.

Finance Director's review

Profit and loss account

The following table breaks down turnover and profit before tax into their component streams:

	2003 £m	2002 £m
Asset management fees	15.7	7.3
Performance fees	13.3	2.8
Snozone income	5.5	4.0
Rental and other income	4.9	12.1
Group turnover	39.4	26.2
Share of joint ventures and associates	35.9	27.3
Direct property expenses	(1.3)	(2.0)
Direct Snozone expenses	(5.1)	(3.8)
Amortisation of goodwill	(1.2)	–
Net interest payable – non- and limited-recourse	(22.5)	(15.0)
– own borrowings	(7.0)	(10.1)
Contribution	38.2	22.7
Management expense	(19.5)	(14.3)
Profit on disposals	7.6	2.3
Exceptional items	–	(8.7)
Profit before taxation	26.3	2.1

Asset management fees are earned by Capital & Regional Property Management Limited for managing the funds and partnerships.

Performance fees are earned from the Mall and Junction Funds. They represent the manager's share of the excess return over the benchmark. In both funds the benchmark is the higher of 12% and IPD +1%. The increase over 2002 results from the strong outperformance of the Mall Fund, from which we earned a fee of £11.1 million and the first performance fee from the Junction Fund of £2.2 million.

Our 2003 performance has an impact on future years' performance fees as explained in note 8.

Snozone income derives from ticket sales at Milton Keynes and, for the past three months, at Castleford. Its expenses include rent paid to the partnerships and payroll costs of £1.6 million.

Rental and other income comes from the Group's remaining portfolio of wholly owned properties. The corresponding expenses are shown as direct property expenses.

Share of joint ventures and associates is our proportionate share of fund operating profit. Although we receive quarterly payments net of interest, under FRS 9 we are required to show this gross and the interest separately.

Amortisation of goodwill arises because we paid £15.7 million for the income stream arising from the MWB fund management business. We are amortising this over 12.5 years.

Management expense was £19.5 million. The increase of 36% on last year is explained by the acquisition of the MWB asset management business, by the growth of the Mall and Junction portfolios and by increased performance-related payments. Our management expense is now well covered by the £29 million of fee income.

Value of property management business

Over the past two years the Group has built up a flow of property management income The management contracts extend to ten years for the Junction Fund. The Mall Fund contract was extended to 15 years during 2003, at the request of a new investor. The three leisure fund contracts, which were due to expire in 2005 and 2006, have now been consolidated into one fund with a 15-year life. It is capable of extension for a further five years.

Fee income

	2003 £m	2002 £m
Ongoing fee income	12.0	6.0
Transaction-related fees	3.7	1.2
Performance fees	13.3	2.8
Total fee income	29.0	10.0

The only value attributed to this income stream in the balance sheet is a relatively small amount of goodwill (£15.7 million) arising on the acquisition of the leisure fund management business. The value of the business built up internally is not included.

Adjusted net asset value (NAV) per share

Adjusted NAV per share on a fully diluted basis has increased from 392p per share to 521p per share. There have been minor adjustments to the way the figure is calculated, as described in note 30.

Finance and capital structure

Our partnership and property assets are financed in three different ways:

- Quoted equity
- Quoted Cumulative Unsecured Loan Stock (CULS)
- Bank debt.

At current share prices our CULS are convertible into shares at a price of £1.94 per share between 2006 and 2016. At present their 6.75% yield marginally exceeds the dividend yield arising from conversion. For gearing calculations we treat them as equity rather than debt.

The bank debt on our balance sheet is secured on our interests in the Mall and Junction Funds, and our remaining directly held properties. At the year end we had drawn only £48 million on our main £100 million facility. On balance sheet gearing (debt/equity) is 29% and the average period to repayment is just over four years.

We also monitor our gearing on a "see-through" basis, including our share of the fund debt, and the debt held in joint ventures. In the case of the fund debt, there is no recourse to the Group for the debt whatsoever. It is secured on the properties in the funds, held in a limited partnership structure.

In the case of joint venture debt, we often give partial guarantees. For example we may guarantee interest shortfalls and cost over-runs in a development joint venture. We also guarantee £20 million of the principal debt secured on the Great Northern retail warehouse.

Including our share of fund and joint venture debt, our gearing is 129% and the average repayment period is 3.3 years.

Hedging interest rate risk

We have significant potential exposures to interest rate movements. Without hedging we would be directly affected by a rise in interest rates because our fixed income stream is used to pay variable interest costs. We could also suffer indirect effects such as a rise in interest rates which could have an adverse effect on property values and consumer spending.

We hedge a large proportion of our direct exposure using interest rate swaps or similar derivative instruments. The swaps are typically matched to the periods of the loans. At the year end £71 million of our £111 million on balance sheet bank debt was swapped (64%). On a see-through basis £332 million of £398 million was swapped (83%).

Taxation

We pay tax on our profits at 30%. The tax on income is mitigated by capital allowances, which are rarely clawed back on disposal. We provide for deferred tax on them in line with accounting standards, but add it back in calculating adjusted fully diluted NAV per share, in line with industry practice.

We also pay corporation tax on capital gains at 30% on disposals and deemed disposals. Deemed disposals arise as the funds expand and our share is diluted; although we receive no cash we pay tax on the amount we are "deemed" to have sold to new investors. During 2003 we provided for corporation tax on capital gains of £4.4 million of which £3.7 million is put through reserves.

Under current accounting standards we do not provide for deferred tax on unrealised revaluation surpluses. We disclose a contingent tax liability of £32 million which could crystallise if all our property and partnership assets were sold at valuation at the year end.

International Accounting Standards

International Accounting Standards are due to become mandatory for all listed companies within the European Union in 2005. Our June 2005 interim report will have to conform, although some of the new standards will still be voluntary. Over the next 12 months we will be monitoring closely the development of best practice surrounding the new standards. Whatever the outcome we will endeavour to use the framework provided to explain the business to our shareholders as clearly as possible.

William Sunnucks
Finance Director

Operating review: Shopping centres

We understand that our success depends on our retailers' success. They are regarded as true business partners.

The Mall Fund

On 28 February 2002 all C&R's covered shopping centres were transferred into the Mall Fund. At that time it was a 50/50 joint venture with Morley Fund Management, which transferred some of its clients' shopping centres into the fund.

The Mall Fund invests in shopping centres which meet certain broad criteria: in-town, generally covered, with integral car parking and good public transport links; a minimum size of 150,000 sq ft suggests these centres either dominate their typical core town shopping catchments of 100,000 people, or enjoy an established position within a larger metropolitan catchment. As such, the Malls can be positioned at the heart of their communities.

The Mall team

C&R's shopping centres team is dedicated to managing the Mall Fund's shopping centres. They are managed as businesses and not just as property investments. The emphasis is on responsible local management. This gives us direct lines of communication with our shoppers, our retail partners and local communities.

The Mall central team supports this local effort by providing specialisms in leasing, marketing, accounting and HR. It also harvests economies of scale in areas such as utilities and ensures the application of best practice across the business as a whole. This Mall management system allows for the essential consistency of experience necessary for the successful development of the Mall brand in becoming the UK's leading owner and operator of community shopping centres.

The top five Mall tenants are:	% of rental income	Number of units
Arcadia Group	2.7	20
Clinton Cards	2.5	15
Woolworths	2.4	6
Boots	2.2	9
Argos	1.9	8

The growth of the Mall Fund

The Mall enables investors to benefit from this specialist management, improved diversification and strong income and capital growth. Since inception the fund has almost doubled in size to circa £1.25 billion. Other investors have joined the fund, often injecting their own (or their clients') covered shopping centres. Notable examples are:

- Prudential Property Managers – Gracechurch Centre, Sutton Coldfield
- ISIS – Castle Mall, Norwich
- Hermes – The Marlands, Southampton.

We estimate that there are approximately 225 UK centres that would qualify as Malls. We expect to grow the Mall towards our initial target of 25 centres (£2 billion gross asset value) over the coming years through both cash acquisitions and in-specie injections from current owners.

The Mall management style

We understand that our success depends on our retailers' success. They are regarded as true business partners. We operate our centres to make them as accessible, entertaining and popular with the shopping public as possible. Our Mall brand seeks to be at the heart of the community leading the Mall to be a social as well as retail venue. By so doing we plan to increase shopping visits and dwell times yielding the prospect of greater sales for our retailers. Our increasing scale improves our relationships with our multiple retailers. Cross-portfolio negotiations are common.

We believe in the benefits of branding. The Mall brand values of "caring, dynamic and easy" lie at the heart of our business: caring because we're personal and responsible with our business partners and shoppers; dynamic because we create changing, fun and involving environments; and easy because we strive to offer an accessible, stress-free shopping experience. The Mall brand is a developing promotional and media platform, offering national coverage with local relevance. With approximately 140 million shopping visits during 2003, there are emerging commercial opportunities with brand partners who wish to access this constituency.

Performance

In both years, the fund has substantially outperformed its benchmarks. As a result C&R has earned significant performance fees:

	2003 12 months	2002 10 months
Property level return	21.7%	14.7%
Fund level return	33.5%	21.6%
Benchmark	15.2%	10.6%
Performance fees	£11.1m	£2.9m

Performance fees are mainly driven by the capital growth, but are paid yearly and deducted from income. The capital growth is attributable to yield shift, stamp duty savings for properties in disadvantaged areas and strong ERV growth.

Below Sara Jones, General Manager at The Mall, Epsom.

Centre left Angela Greenlees, Marketing Manager, The Mall, Wood Green.

Centre right Marie Yuille models the new cleaning uniform with Elvis at The Mall, Falkirk.

Bottom Ken Ford and members of The Mall team.

Our Malls

Our Malls	Size (sq ft)
Aberdeen	200,000
Barnsley	170,000
Bexleyheath	400,000
Birmingham	300,000
Chester	225,000
Edgware	199,000
Epsom	350,189
Falkirk	190,000
Ilford	300,000
Norwich	400,000
Romford	320,000
Southampton	200,000
Sutton Coldfield	500,000
Walthamstow	280,500
Wood Green	570,000

Operating review: Retail parks

The Junction Fund is now the sixth-largest retail park owner in the UK.

The retail park team activities during 2003 included:
- Managing the Junction Fund
- Participating in the Glasgow Fort joint venture development with Pillar Property
- Commencing the development of the Morfa Retail Park in Swansea
- Selling the Group's remaining retail parks which were not injected into the Junction Fund.

The Junction Fund

On 3 January 2002 C&R injected most of its retail parks into the Junction Fund, alongside a similar number of retail parks from clients of Morley Fund Management. Since inception the fund has more than doubled its size from £322 million to £757 million. New investors have participated in the fund, diluting C&R's interest from 50% to 28.4%.

The Junction Fund is now the sixth-largest retail park owner in the UK. The scale of ownership provides the opportunity to carry out cross-portfolio deals with tenants allowing them to expand in some locations and restructure in others.

The fund is aiming to become the premier choice for indirect investment exposure to actively managed retail park property in the UK. It is building a UK-wide portfolio of destination retail parks with the following characteristics:
- Minimum size of at least 120,000 sq ft
- At least one "category killer" store such as B&Q or Homebase
- Dominant scheme, or the opportunity to become the dominant scheme, in the catchment area
- Opportunities to add value through asset management.

The main Junction tenants are:	% of rental income
B&Q	18.0
Comet	5.8
Carpetright	4.9
Matalan	4.4
Homebase	3.9
JJB	3.9

Acquisitions and disposals

The Junction portfolio has been actively managed to position itself for future growth. In February 2003 the prime Chartwell Land portfolio, the largest portfolio to come onto the market in recent years, was split between the Junction Fund, Pillar, Hercules Unit Trust and Morley.

Of the four parks acquired by the Junction, one was immediately sold and asset management initiatives have already commenced on the remaining three. The total uplift on this portfolio since acquisition, including the sale, was £20 million.

In September 2003 the Oxford Road Retail Park in Reading was sold for £25.1 million and in November 2003 the Drakehouse Retail Park in Sheffield was sold for £58 million. Significant gains were made on both these properties over their historical cost.

Planning permissions and developments

During the 1980s and early 1990s the number of retail parks in the UK increased rapidly. More recently planning restrictions have tightened and it is now very difficult to get planning permission for substantial new locations.

Despite this, there remains considerable scope for improving and redeveloping the existing Junction portfolio. The business plans have identified the potential to invest over £200 million in its sites. These developments will normally be substantially pre-let, with fixed-price building contracts which reduce the risk borne by the fund.

We have achieved notable planning permissions during the year. Our 190,000 sq ft development at Aylesbury has now commenced on site and we anticipate starting on our 130,000 sq ft extension/redevelopment to Hull during the second half of the year. A planning inquiry for our 430,000 sq ft proposal at Oldbury will commence in May this year.

Junction retail parks	Size (sq ft)
Beckton [1]	190,000
Bristol [1]	220,000
Glasgow	180,000
Hull [1]	200,000
Ipswich	210,000
Leeds [1]	140,000
Leicester [1]	170,000
Maidstone	170,000
Oxford	140,000
Paisley [1]	180,000
Portsmouth	160,000
Renfrew	240,000
Junction Thurrock Joint Venture [1,2]	440,000
Wembley	260,000
Worcester	90,000

1 Stamp duty disadvantaged area
2 The Junction owns 65% of the Junction Thurrock joint venture

Below Andrew Lewis-Pratt and members of the Junction team.

Bottom The Pod at Hull.

Junction developments

	Existing area	Further development
Aylesbury [3]	94,000	96,000
Bristol – phase II [4]	–	180,000
Hull – phase II [3]	80,000	50,000
Oldbury	40,000	390,000
Paisley – phase II	–	95,000
Portsmouth – phase II	–	80,000

3 Planning permission already in place
4 Planning permission for 150,000 sq ft already in place

Performance

In 2003 the Junction Fund outperformed its benchmark and for the first time earned a performance fee.

	2003	2002
Property level return	**17.7%**	13.3%
Fund level return	**28.2%**	17.8%
Benchmark	**16.6%**	17.2%
Performance fee	**£2.2m**	

Performance fees are mainly driven by the capital growth, but are paid yearly and deducted from income. The capital growth is attributable to strong ERV growth as a result of asset management initiatives, securing planning consents for development and stamp duty savings for properties in disadvantaged areas. Yield shift calculated on a like-for-like basis was only 0.18%.

Glasgow Fort

In February 2003 the Auchinlea Partnership acquired this 90-acre site and commenced construction on the first phase of 300,000 sq ft of open A1 retail. This is a 50/50 joint venture between C&R and Pillar Property.

Building work on the first phase is due for completion in October 2004. Lettings have been highly satisfactory with approximately 61% of the expected rental value already contracted and terms agreed on a further 8%. Total expected rental income has risen to £10.5 million and total project costs for phase 1 are estimated at £142 million.

On 2 April 2004 the Auchinlea Partnership announced the conditional sale of the property to Hercules Unit Trust for £194.7 million.

Swansea

In July 2003 C&R acquired a site near the Morfa stadium from the Swansea City Council, and transferred planning consent for 105,000 sq ft of open A1 retail. Building work started in September 2003 and is expected to be complete by September 2004.

Lettings are progressing well with 75% of the expected rental income of £4.9 million either contracted or terms agreed. Total project costs are anticipated to be £64 million.

Operating review: Leisure

We are committed to proving that retail, leisure, entertainment and attractions can be tied together successfully to bring new, unique and highly appealing destinations and experiences to the public, as well as good results for our investors.

C&R's leisure team has four major responsibilities:
- X-Leisure – managing the three funds acquired from MWB last year, which have now been combined under one umbrella fund. At December 2003 the total gross asset value managed was £500.5 million.
- Xscape – developer, manager and operator of this sports, leisure and retail destination brand. Following the success of Xscape Milton Keynes the second Xscape at Castleford, Leeds, opened in the autumn. Construction of the third Xscape is due to commence in summer 2004. Further sites are actively being pursued.
- Snozone – operates real snow slopes within the Xscape destinations, as a tenant to the partnerships which own the properties.
- The Great Northern Warehouse, Manchester – this joint venture with AWG is being managed by the leisure team.

The X-Leisure Fund

On 24 January 2003 C&R took management control of the three X-Leisure funds from Marylebone Warwick Balfour. C&R bought small stakes in the funds, together with the fund management business, for a total of £31 million.

The three funds own 16 leisure parks and three health clubs nationwide. The parks are anchored by multiplex cinemas with dedicated car parking as well as typically bowling, health and fitness, restaurants and bars. Leases are institutional in character, and many also enjoy fixed rental uplifts through the lease term.

Since acquisition C&R has brought a business focus to the management of these assets and introduced property-specific business plans. A large number of leasing initiatives have been progressed, but significant capital expenditure has been postponed until the three funds are consolidated into one vehicle with an extended life. The current split of assets between three separate funds reduces the manager's ability to exploit cross-portfolio transactions and economies of scale and leads to conflicts of interest.

Umbrella fund An umbrella fund has now been created with a new life of 15 years. C&R currently owns 10.77% of the umbrella fund, the balance being held by eight institutional investors. The property and asset management has been contracted to C&R, and the fund management to Hermes. C&R will be entitled to management fees and to performance fees as in the Mall and Junction Funds.

This fund is the largest property leisure fund in the UK. Our aspiration is to grow it to a gross asset value of £1 billion.

The team will continue its focus on creating destinations, increasing footfall and extending dwell times, as has proven successful with the Xscape destinations. The intention is to split the leisure park portfolio into two distinct brands – large urban entertainment destinations and more traditional family edge-of-town leisure parks. Each property additionally has a dedicated business plan ensuring very focused management. The marketing initiatives undertaken last year were also recognised at the Leisure Awards where three of the four finalists were X-Leisure campaigns.

Xscape

Xscape at Milton Keynes has continued to trade well. Footfall exceeded 6 million in 2003, 39% up on the 2001 level. The centre is fully let with leases changing hands at premiums.

The second Xscape at Castleford, near Leeds, opened in October 2003 and has exceeded expectations. Record initial trading levels were reported by many of the restaurant operators as well as the bowling operator Bowlplex and the snow slope operation. As at March 2004 82% of the space was let or under offer.

Construction of the third Xscape in Braehead, near Glasgow, is due to start in summer 2004. This will be built in partnership with Capital Shopping Centres, the owners of the neighbouring regional shopping centre. Xscape Braehead will be anchored by a 12-screen Odeon cinema, a 170m snow slope and a 24-lane bowling/family entertainment centre. Agreements for lease and terms have already been agreed to take the scheme to 60% pre-let.

Snozone

Snozone is the operating business which runs the snow slopes within the Xscape destinations and is 100% owned by C&R, employing 230 full- and part-time members of staff. It leases the snow slopes at Milton Keynes and Castleford from the partnerships which own the buildings on arm's length terms and makes an increasingly significant profit.

Below Xscape Castleford grand opening ceremony.

Centre Star City – a challenge and an opportunity.

Bottom The X-Leisure Exec team.

Great Northern

On 31 May 2003 C&R took a 50% stake in the Great Northern Warehouse, Manchester. The building had been converted to a high standard and was anchored by an AMC cinema and NCP. However other lettings did not follow and the property remained substantially vacant. C&R's leisure team has been working with its joint venture partner, AWG, to evaluate the options for leasing the majority of the vacant space.

Urban leisure destinations	Size (sq ft)
Xscape MK	420,000
Xscape Castleford	361,000
Fountain Park, Edinburgh	230,000
Tower Park Leisure Park, Poole	181,000
Bentley Bridge Leisure Park, Wolverhampton	115,000
Lockmeadow Leisure Park, Maidstone	143,000
Weyside Square Leisure Park, Guildford	46,000
Boldon Leisure Park, Tyne & Wear, Boldon	51,000
Stack Leisure Park, Dundee	153,000
StarCity Entertainment Centre, Birmingham	393,000
02 Centre, Swiss Cottage, London	297,000
Riverside, Norwich	198,000
Parrs Wood Leisure Park, Manchester	242,000
Great North Leisure Park, North Finchley, London	96,000
Fiveways, Birmingham	185,000
Grants Entertainment Centre, Croydon	149,000
Eureka Entertainment Centre, Ashford	131,000
West India Quay, Docklands, London	130,000
Health clubs	
Giffnock, Glasgow	38,000
Cannons, St Albans	59,000
Cricket Ground, Pentagon, Derby	49,000

Directors


Tom Chandos


Martin Barber


William Sunnucks


Xavier Pullen


Hans Mautner


David Cherry


Peter Duffy


Andrew Lewis-Pratt


Paul Stobart


PY Gerbeau


Kenneth Ford

Tom Chandos Non-executive Chairman, 51
Member of Nomination Committee
Tom is a director of Northbridge Management, which is a fund management company specialising in hedge funds and other alternative investments. He is a non-executive director of Global Nature Energy plc and a director of a number of private companies, including Cine-UK Limited and Hudson Sandler Limited. He was appointed as a director of the Company in 1993 and as Chairman in 2000.

Martin Barber Chief Executive, 59
Member of Nomination Committee
Martin was a founder director of the Company in 1979 and has been involved in commercial property as a developer and investor for over 30 years. Martin is also Chairman of CenterPoint Properties Trust, a real estate investment trust, listed on the New York Stock Exchange and formerly a subsidiary of Capital & Regional.

William Sunnucks Finance Director, 47
William was appointed Group Finance Director in October 2002. He has been Finance Director of a number of large companies, including Securum International and English, Welsh and Scottish Railways. He is a chartered accountant and has an MBA from the London Business School. William has responsibility for the Group's finances, including funding, reporting and financial control.

Xavier Pullen
Deputy Chief Executive, 52
Xavier was a founder director of the Company in 1979 and has been active in the property industry for over 30 years. Xavier focuses primarily on the supervision of the Group's fund management business together with the co-ordination of all property matters.

Hans Mautner Non-executive, 66
Chairman of Remuneration Committee
Hans is President of the International Division of Simon Property Group (SPG), the world's largest publicly traded retail real estate company. In addition, Hans is Chairman of Simon Global Limited, SPG's London-based entity. SPG currently carries out its ownership/development in Europe through two separate entities in which it has investments: Gallerie Commerciali Italia and European Retail Enterprises. Hans is Chairman of both these organisations. Through its investment in ERE/Groupe BEG, of which he is also Chairman, SPG is currently active in the ownership/development of shopping centres in Europe. Hans was appointed as a director of the Company in 2003.

David Cherry Non-executive, 66
Member of Audit and Remuneration Committees
David is the former Senior Partner of Donaldsons, a national firm of commercial chartered surveyors with a significant reputation in retail property. He has wide experience in the UK property market and was head of the organisation for eight years. He was appointed as a director of the Company in 1997.

Peter Duffy Non-executive, 67
Member of Audit and Nomination Committees
Peter was previously Managing Director of TR Property Investment Trust plc and Chairman of European City Estates N.V. He is a director of Nightingale Square Properties plc. He was appointed as a director of the Company in 1995.

Andrew Lewis-Pratt BSc ARICS
Managing Director of Retail Parks, 46
Andrew has been a director of Capital & Regional since 1997 and, as Chief Executive of The Junction, is responsible for the fund's retail park portfolio. Andrew has over 20 years' experience within the retail and leisure sector.

Paul Stobart Non-executive, 46
Chairman of Audit Committee and member of Remuneration Committee
After qualifying as a chartered accountant with Price Waterhouse, Paul spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined Sage in 1996 as Business Development Director, becoming Chief Operating Officer in 2000. In 2001 Paul was appointed a non-executive director of Planet Holdings plc. Paul was appointed as a director of the Company in 2003.

PY Gerbeau Managing Director of Leisure, 38
PY was appointed to the Board in 2003, and as Chief Executive of X-Leisure. He has over 15 years' experience in the leisure industry. PY's career to date has included Vice President of Park Operations at Disneyland Paris and Chief Executive of the Dome. PY has an MBA from one of France's leading business schools and teaches on the MBA programme at the London Business School.

Kenneth Ford BSc FRICS
Managing Director of Shopping Centres, 50
Ken has been a director of Capital & Regional since 1997 and, as Chief Executive of The Mall, is responsible for the fund's shopping centre portfolio. Ken has been involved in commercial property for 29 years. He founded the Easter Management Group Scotland in 1991 prior to joining Capital & Regional.

Advisers and corporate information

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Registered number
1399411

Directors' remuneration report

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee appointed by the Board, consisting entirely of non-executive directors. At the beginning of the year the members were Martin Gruselle (Chairman), Tom Chandos and David Cherry. During the year Hans Mautner was appointed Chairman and Paul Stobart became a member. Tom Chandos and Martin Gruselle resigned from the Committee.

The Committee is responsible for setting the remuneration policy for the executive directors and senior employees. The Committee determines the terms of the service agreements, salaries and discretionary bonus payments, as well as deciding on the awards to be made to all participants in the Long Term Incentive Plan and Capital Appreciation Plan. Advice from independent external advisers is obtained when required.

Remuneration policy

The Committee, using published data and market research, seeks to ensure that the total remuneration received by the executive directors under their contracts is competitive within the property industry and will motivate them to perform at the highest level.

In order to align the interests of executive directors with the interests of shareholders, a significant proportion of directors' remuneration is performance-related through the use of annual bonus and incentive schemes.

Basic salaries

The Committee's policy is to set the basic salaries of each executive director at levels which reflect their roles, experience and the practices in the employment market.

Annual bonus scheme

For 2003 and future years, the Committee will award cash bonuses to the executive directors based on an assessment of their individual achievements during the year.

Incentive schemes

The Company has four incentive schemes under which awards currently subsist:

- The 1988 Share Option Schemes ("the Closed Schemes")
- The 1998 Share Option Schemes ("the 1998 Schemes")
- The Long Term Incentive Plan (LTIP)
- The Capital Appreciation Plan (CAP).

Shareholder approval for the Closed Schemes expired in May 1998 and no further options may be granted under those schemes.

No further awards will be made under the 1998 Schemes to participants in the LTIP.

All the present executive directors are participants in the LTIP. In addition, other key executives are also participants in the LTIP. The terms of the LTIP permit the Committee to make conditional awards of shares annually to key executives with a market value not exceeding 100% of the participants' basic salary. In 2003, a total of 498,750 shares were conditionally awarded to the executive directors and other key executives. The conditions of exercise of the LTIP are designed to motivate the key executives and retain them in the Company's employment. Details of the awards made in 2003 and a summary of the exercise conditions are set out under the heading "Long Term Incentive Plan" below.

All the present executive directors are participants in the CAP. Other key executives are also participants in the CAP. The terms of the CAP permit the Committee to make awards annually to key executives which will entitle them to receive payments in aggregate of up to 30% of the performance fees receivable by the Company from the Mall and Junction Funds. A total of £3.99 million has been awarded to the executive directors and other key executives in respect of the performance fees earned in 2003; the individual entitlements for 2003 will be reduced by 80% of the value of the shares awarded under the LTIP – to the extent that the awards vest. Details of the awards made in respect of 2003, and a summary of the conditions affecting payment, are set out under the heading "Capital Appreciation Plan" below.

Directors' remuneration report

Pension arrangements

The Company makes contributions (at differing rates of basic salary) to defined contribution pension schemes of each executive director's choice except that in the cases of M Barber and X Pullen £48,857 and £46,192 salary in lieu of pension contributions were paid to them respectively.

Other benefits

Benefits comprise private medical insurance cover, permanent health insurance cover, critical illness cover and additional salary in lieu of a company car.

Service contracts

Each of the present executive directors has a service agreement which can be terminated on one year's notice by either party, except in the case of W Sunnucks who can terminate his service agreement by giving six months' notice.

In the event of early termination of an executive director's agreement, the Committee determines the amount of compensation (if any) to be paid by reference to the circumstances of the case at the time. It is the Committee's policy not to reward poor performance and to take account of the executive directors' duty to mitigate loss.

The dates of the executive directors' agreements are as follows:

M Barber	28 October 1993
X Pullen	28 October 1993
K Ford	17 May 1996
A Lewis-Pratt	20 January 1998
W Sunnucks	15 October 2002
PY Gerbeau	14 April 2003

Non-executive directors – remuneration

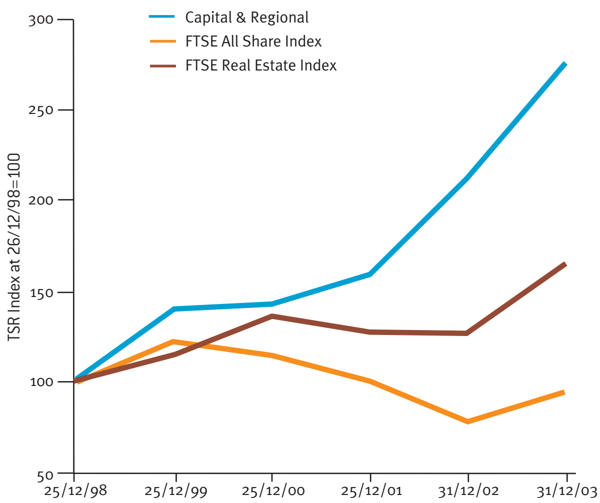
Each non-executive director currently receives fees of £27,000 per annum. The Chairman receives additional fees of £63,000 per annum and the Chairman of each of the Audit and Remuneration Committees receives an additional fee of £5,000 per annum.

The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes.

None has a service agreement and all are appointed for three-year fixed terms.

Performance graph

The graph below is prepared in accordance with The Directors' Remuneration Report Regulations 2002 and illustrates the Company's performance compared to a broad equity market Index. As the Company is a constituent of the FTSE Real Estate Index, this index is considered to be the appropriate comparator for this purpose. Performance is measured by total shareholder return (share price growth plus dividends paid).



Audited information

Long Term Incentive Plan

Shares have been conditionally awarded to the directors under the Long Term Incentive Plan as set out below:

	As at 31 December 2002	Shares conditionally awarded in year	Market price on date of award (p)	End of qualifying period	**As at 31 December 2003**
M Barber	84,138	–	310.5	31/12/04	**84,138**
	–	68,750	394.5	31/12/05	**68,750**
X Pullen	79,459	–	310.5	31/12/04	**79,459**
	–	65,000	394.5	31/12/05	**65,000**
W Sunnucks	30,596	–	310.5	31/12/04	**30,596**
	–	50,000	394.5	31/12/05	**50,000**
K Ford	76,490	–	310.5	31/12/04	**76,490**
	–	62,500	394.5	31/12/05	**62,500**
A Lewis-Pratt	76,490	–	310.5	31/12/04	**76,490**
	–	62,500	394.5	31/12/05	**62,500**
PY Gerbeau	58,132	–	310.5	31/12/04	**58,132**
	–	56,250	394.5	31/12/05	**56,250**

In addition, 133,750 shares were awarded to key executives at 394.5p; total conditional awards held by key executives at 31 December 2003 amounted to 251,544 shares.

The qualifying ("vesting") conditions for all awards under the plan can be summarised as follows:

The extent to which shares conditionally awarded in 2003 will vest is determined by reference to the level of the Group's average post-tax return on equity (ROE) for the financial years ended 31 December 2003, 2004 and 2005. None of the shares will vest if the ROE is less than 10%; 20% of the shares will vest if the ROE is 10%; 100% of the shares will vest if the ROE is 18% or above. If ROE falls between 10% and 18% the percentage of shares will vest at a differential rate.

ROE is calculated by dividing the total of profit attributable to shareholders and all gains and losses included in the statement of total recognised gains and losses for the relevant year by the amount of the equity shareholders' funds on the first day of the relevant year, adding the results for the three years, dividing by three and multiplying the result by 100. Adjustments to the amount of equity shareholders' funds will be made to reflect changes in the amount of the issued share capital, share premium account or capital reserves occurring during the relevant financial year.

Capital Appreciation Plan

In accordance with the terms of the plan, the directors have been awarded the following interests in the performance fees receivable by the Group in respect of the financial year 2003.

The interests awarded will only be paid in full if none of the shares conditionally awarded under the LTIP in 2003 vest in 2006. The value of the initial award will be reduced pro rata to the extent that any part of the performance fees received by the Group in respect of 2003 are clawed back as a result of under-performance of the funds in 2004 or 2005. Consequently, no payments will be made in respect of the 2003 awards until 2006, when this right lapses.

	Interest awarded in respect of 2003 %	Value of initial award in respect of 2003 £	Maximum amount of offset Note 1	Maximum offset carried forward from previous year Note 2
M Barber	4.89	650,000	273,019	–
X Pullen	4.50	600,000	235,880	–
K Ford	6.00	800,000	197,250	–
A Lewis-Pratt	4.50	600,000	296,869	–
W Sunnucks	2.40	320,000	212,912	–
PY Gerbeau	2.49	330,000	232,668	–

In addition, 5.22% interests with a value of £695,130 were awarded in respect of 2003 to key executives who were not directors. The same key executives received LTIP awards whose maximum gross aggregate offset amounted to £547,855.

Note 1 The amount of the offset represents 80% of the LTIP award made in 2003 plus the offset carried forward from 2002; it will be reduced pro rata to the extent that the shares conditionally awarded under the LTIP do not vest in full.

Note 2 If the finally determined amount of the offset exceeds the value of the CAP award in any one year, the excess will be carried forward to be offset against future awards under the CAP. Where participants have offset carried forward from previous years this is aggregated with the maximum offset.

Directors' remuneration report

Directors' remuneration

The remuneration of the directors who served in the year ended 31 December 2003 is analysed below:

	2003 Salary and fees £000	2003 Discretionary bonus £000	2003 Pension contributions £000	2003 Other benefits £000	2003 Total £000	2002 Total £000
M Barber	**275**	**248**	**49***	**27**	**599**	612
X Pullen	**260**	**234**	**46****	**21**	**561**	591
K Ford	**250**	**225**	**38**	**21**	**534**	549
A Lewis-Pratt	**250**	**225**	**38**	**20**	**533**	549
W Sunnucks	**200**	**180**	**25**	**19**	**424**	92
PY Gerbeau	**161**	**145**	**–**	**13**	**319**	–
	1,396	**1,257**	**196**	**121**	**2,970**	2,393
T Chandos	**90**				**90**	98
M Gruselle	**15**				**15**	35
D Cherry	**27**				**27**	25
P Duffy	**27**				**27**	25
H Mautner	**11**				**11**	–
P Stobart	**14**				**14**	–
	184				**184**	183
Total	**1,580**	**1,257**	**196**	**121**	**3,154**	2,576

* £48,857 was paid to M Barber as salary in lieu of pension contributions in 2003 (2002: £49,000)
** £46,192 was paid to X Pullen as salary in lieu of pension contributions in 2003 (2002: £18,500)

Interests in shares

The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) were beneficially interested in the ordinary share capital of the Company at the dates shown in the table opposite.

There have been no changes to the directors' interests in shares since 31 December 2003 other than:

- A Lewis-Pratt exercised 125,000 share options and subsequently sold the shares.
- X Pullen exercised 154,845 share options.

	Ordinary shares of 10p each		6.75% convertible subordinated unsecured loan stock 2006/16	
	31 December 2003 Shares	31 December 2002 Shares	**31 December 2003 £**	31 December 2002 £
M Barber	**2,290,244**	2,146,366	**35,394**	35,394
X Pullen	**917,421**	809,545	**23,693**	23,693
W Sunnucks	**9,185**	–	**–**	–
K Ford	**382,001**	381,951	**–**	–
A Lewis-Pratt	**14,153**	14,153	**–**	–
PY Gerbeau	**–**	–	**–**	–
T Chandos	**45,000**	45,000	**5,000**	15,000
P Duffy	**–**	–	**–**	–
D Cherry	**5,580**	4,138	**–**	–
P Stobart	**–**	–	**–**	–
H Mautner	**–**	–	**–**	–
	3,663,584	3,401,153	**64,087**	74,087

Interests in share options

	As at 31 December 2002	Exercised	**As at 31 December 2003**	Exercise price (p)	Market price at date of exercise (p)	Earliest exercise date	Latest exercise date	Exercise condition met
M Barber	136,878	136,878	**–**	168.9	367.5	22/12/96	22/12/03	Yes
	104,263		**104,263**	131.4		28/10/97	22/10/04	Yes
	50,582		**50,582**	226.4		18/06/00	18/06/04	Yes
	50,000		**50,000**	211.5		13/09/03	13/09/10	Yes
	341,723		**204,845**					
X Pullen	136,878	136,878	**–**	168.9	373.5	22/12/96	22/12/03	Yes
	104,263		**104,263**	131.4		28/10/97	22/10/04	Yes
	50,582		**50,582**	226.4		18/06/00	18/06/04	Yes
	100,000		**100,000**	279.5		18/05/01	18/05/08	Yes
	50,000		**50,000**	211.5		13/09/03	13/09/10	Yes
	441,723		**304,845**					
K Ford	13,000	13,000	**–**	226.4	326.5	18/06/00	18/06/07	Yes
	138,747	138,747	**–**	226.4	326.5	18/06/00	18/06/04	Yes
	175,000		**175,000**	279.5		18/05/01	18/05/08	Yes
	75,000		**75,000**	191.5		18/02/02	18/02/07	Yes
	50,000		**50,000**	211.5		13/09/03	18/09/10	Yes
	451,747		**300,000**					
A Lewis-Pratt	13,000	13,000	**–**	226.4	303.0	18/06/00	18/06/07	Yes
	138,747	138,747	**–**	226.4	303.0	18/06/00	18/06/04	Yes
	175,000	175,000	**–**	279.5	367.5	18/05/01	18/05/08	Yes
	75,000		**75,000**	191.5		18/02/02	18/02/07	Yes
	50,000		**50,000**	211.5		13/09/03	18/09/10	Yes
	451,747		**125,000**					

During the year, the share price ranged from a high of 403p to a low of 249.5p. The share price as at 31 December 2003 was 403p.

No share options were granted during 2003 and no further awards will be made under these schemes to participants of the LTIP.

Approval

This report was approved by the Board of Directors and signed on its behalf by:

Falguni Desai

F Desai Company Secretary
8 April 2004

Directors' report

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

Results and proposed dividends

The consolidated profit and loss account is set out on page 32 and shows a profit on ordinary activities after taxation of £19,381,000.

The directors recommend the payment of a final dividend of 5.0p per ordinary share on 18 June 2004 to members on the register at the close of business on 23 April 2004, which together with an interim dividend of 4.0p per ordinary share, paid in 2003, makes a total of 9.0p for the year.

Principal activities, trading review and future developments

The principal activity of the Group is that of a co-investing property manager. A review of the activities and prospects of the Group is given in the Chairman's statement, the Chief Executive's review, the Finance Director's review and the Operating review on pages 4 to 15.

Directors

The directors of the Company during the year were: M Barber, T Chandos, D Cherry, P Duffy, K Ford, PY Gerbeau, M Gruselle, A Lewis-Pratt, H Mautner, X Pullen, P Stobart and W Sunnucks.

P Duffy will retire from the Board at the Annual General Meeting.

All directors served throughout the year with the exception of PY Gerbeau (appointed on 14 April 2003), H Mautner, P Stobart (both appointed on 24 July 2003) and M Gruselle (resigned on 30 May 2003).

In accordance with the Articles of Association, H Mautner and P Stobart, having been appointed after the last Annual General Meeting, will retire by rotation and, being eligible, offer themselves for re-appointment. T Chandos and M Barber will retire from the Board by rotation and will also offer themselves for re-election.

The Company maintains insurance for the directors in respect of liabilities arising from the performance of their duties.

Directors' interests

The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) are interested in 3,663,584 issued shares representing 5.8% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report on page 22.

Save as set out in note 34 to the accounts there were no contracts of significance subsisting during or at the end of the year in which a director of the Company was materially interested.

Share options

Details of outstanding options granted to the directors, under the same schemes, are contained in the directors' remuneration report on page 23.

Long Term Incentive Plan (LTIP) and Capital Appreciation Plan (CAP)

The Company established the plans on 18 December 2002 for the benefit of the executive directors and key executives. Details of the plans and awards made are contained in the directors' remuneration report on page 21.

Substantial shareholdings

In addition to the interests of the directors, the Company has been notified pursuant to Sections 198 to 202 of the Companies Act 1985, as amended, of the following notifiable interests in its issued share capital as at 1 April 2004 (the latest practicable date prior to the issue of this report):

	Shares	%
The Capital Group Companies Inc.	5,120,000	8.10
Neuberger & Berman, LLC	5,032,956	7.96
Henderson Global Investors	3,964,458	6.27
United Nations Pension Fund	3,936,120	6.23
Isis Asset Management plc	3,807,437	6.02
UBS Global Asset Management	3,189,605	5.05
Legal & General Investment Management	2,770,515	4.38
Morley Fund Management	2,739,978	4.34
Kempen Capital Management	2,461,900	3.90
ABP Pensions	2,448,712	3.87

Charitable donations

During the year the Group contributed £3,700 (2002: £6,296) to UK charities.

Payment of suppliers

The policy of the Company is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed payment is usually made within one month of receipt of the goods or service. At the year end the Company had an average of 27 days (2002: 28 days) purchases outstanding.

Compliance with Combined Code

A statement on corporate governance is set out on pages 26 to 28.

Stakeholder pensions

As a result of the Government's introduction of stakeholder pensions in April 2001, employers must provide their employees with access to a stakeholder pension scheme. The Company has appointed consultants who have put such a scheme in place and the Company has also nominated a stakeholder pension provider. Employees have had access to join this scheme since May 2001.

Dividend Reinvestment Plan

The Company introduced, for the 1999 interim dividend, and for subsequent dividends, a service whereby shareholders can use their cash dividends to buy more shares in the Company. The plan was introduced for those shareholders preferring capital appreciation rather than income from their shareholding.

The timetable for the 2003 final dividend is set out on page 58. Details of the terms and conditions of the Dividend Reinvestment Plan can be obtained by contacting the Company Secretary at the registered office.

Post balance sheet events

Post balance sheet events are set out in note 35 to the accounts.

Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treat the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of Section 26(S) of the Companies Act 1989. Deloitte & Touche LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Special business of the Annual General Meeting

Authority to allot securities, Section 80 of the Companies Act 1985, requires shareholders' authority for the directors to allot new shares or convertible securities, other than shares which may be allotted under employee share schemes. Under resolution 9, which is proposed as an ordinary resolution, the directors seek authority to allot shares having a nominal value of £2,037,333 representing one third of the nominal value of the Company's issued share capital. The authority will expire at the conclusion of the Company's Annual General Meeting in 2005. The directors have no present intention of exercising this authority.

Pre-emption rights

Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. Under resolution 10, which is proposed as a special resolution, the directors seek to renew their annual authority to allot shares for cash as if the pre-emption rights contained in Section 89(1) of the Companies Act 1985 did not apply up to a maximum of 5% of the Company's issued share capital.

Authority to purchase own shares

At the Annual General Meeting in 2003, the Company was granted authority to make purchases in the market of its own shares, subject to specified limits. This authority, none of which has yet been exercised, expires at the conclusion of the Company's Annual General Meeting for this year and by resolution 11, which is proposed as a special resolution, the Company is seeking to renew this authority. The Company may cancel any bought-in shares immediately or hold them in treasury.

The authority is sought until the conclusion of the 2005 Annual General Meeting, or for 15 months after the date on which the resolution is passed, whichever is the earlier. Details of the current issued share capital are set out in note 28 to the accounts. The directors will only exercise this authority if they consider that it will result in an increase in asset value per share for the remaining shareholders and that it will be in the best interests of the Company to do so.

By Order of the Board

Falguni Desai

F Desai
Company Secretary
8 April 2004

Corporate governance report

The Board of Directors is accountable to the Company's shareholders for the management and control of the Company's activities and is committed to high standards of corporate governance. This report and the directors' remuneration report set out on pages 19 to 23 describe how the Company complies with the provisions of The Combined Code – Principles of Good Governance and Code of Best Practice ("the Combined Code").

Statement of compliance

The Company has complied throughout the year ended 31 December 2003 with the Code provisions set out in Section 1 of the Combined Code issued by the Financial Services Authority in June 2000. In July 2003 the Financial Reporting Council issued a revised Combined Code. This first applies to the Company for the year ending 31 December 2004. The Board is aware of the requirements of the revised Combined Code and has taken various actions in light of its guidance.

Application of the principles

The Board of Directors

Details of the directors are set out on pages 16 and 17. The Company is controlled through the Board of Directors which comprises the Chairman, six executive and four non-executive directors, thus providing an appropriate balance of power and authority. All the Company's non-executive directors act independently of management. The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office.

There is a clear division of responsibility between the Chairman and Chief Executive. In the Company's view, the breadth of experience and knowledge of the Chairman and the non-executive directors' detachment from the day-to-day issues within the Company provide a sufficiently strong and experienced balance with the executive members of the Board. The breadth of experience attributed to the non-executive directors, allied to the management information provided by the Company, enables them to assess and advise the full Board on the major risks faced by the Company. The Company believes that shareholders should regard all its non-executive directors as independent.

The Board reviews the schedule of matters reserved to it for decision at least once a year. Board approval is required for all significant or strategic decisions including major acquisitions, disposals and financing transactions. A procedure for directors to take independent professional advice if necessary has been agreed by the Board and formally confirmed to all directors.

The Board meets at least quarterly and each member receives up-to-date financial and commercial information in respect of the three divisions prior to each meeting, in particular, quarterly management accounts and schedules of income and outgoings (each with comparisons against budget), schedules of acquisitions and disposals and relevant appraisals (prior Board approval being required for large transactions) and cash flow forecasts and details of funding availability.

The directors have delegated certain of their responsibilities to committees that operate within specified terms of reference and authority limits that are reviewed annually or in response to changed circumstances. An Executive Directors' Committee, whose members include seven executives (one of whom is not a main Board director), meets on a weekly basis and deals with all major decisions of the Group not requiring full Board approval or authorisation by other Board committees. The Executive Directors' Committee is quorate with four directors in attendance; if decisions are not unanimous the matter is referred to the Board for approval. Notes and action points from Executive Directors' Committee meetings are circulated to the Board. The Audit and Remuneration Committees, which consist solely of non-executive directors, meet at least twice a year.

All members of the Board are subject to the re-election provisions of the Articles which require them to offer themselves for re-election at least once every three years and, on appointment, at the first Annual General Meeting (AGM) after appointment. Details of those directors offering themselves for re-appointment are set out in the directors' report on pages 24 and 25. Peter Duffy was nominated as the senior independent director as required by the Combined Code for the year ended 31 December 2003. As Peter Duffy retires at the AGM on 11 June 2004, Paul Stobart will be nominated as the senior independent director.

A performance evaluation of the Board was conducted for the year ended 31 December 2003. The Chairman's performance was evaluated by the senior non-executive director, the Chief Executive's performance was evaluated by the Chairman, and both the Chairman and Chief Executive together evaluated the performance of the remaining directors. Training is available for new directors and other directors as necessary.

Nomination Committee

The committee comprises T Chandos, M Barber and P Duffy. Following P Duffy's retirement at the AGM, P Stobart will be appointed as the new committee member. The Nomination

Committee meets as required to select and recommend to the Board suitable candidates for both executive and non-executive appointments to the Board. The Board is given an opportunity to meet the individual concerned prior to any formal decision. During the year, two non-executive directors, Hans Mautner and Paul Stobart, were appointed to the Board following a consultation process involving external consultants. The directors also appointed PY Gerbeau to the Board, which was an internal promotion. The terms of reference of the Nomination Committee are available for inspection at the Company's registered office.

Board and committee meetings

The number of meetings of the Board and of the Audit, Remuneration and Nomination Committees, and individual attendance by directors, is set out below.

Board meetings	Attendance
T Chandos	9
M Barber	9
X Pullen	9
W Sunnucks	9
K Ford	8
A Lewis-Pratt	8
PY Gerbeau (appointed April 2003)	4
M H Gruselle (retired June 2003)	4
P Duffy	8
D Cherry	8
P Stobart (appointed July 2003)	2
H Mautner (appointed July 2003)	2

There were nine meetings during the year.

Audit Committee	Attendance
M H Gruselle (retired June 2003)	2
D Cherry	5
P Stobart (appointed July 2003)	3
P Duffy	5

There were five meetings during the year.

Remuneration Committee	Attendance
T Chandos	3
M H Gruselle (retired June 2003)	2
P Stobart (appointed July 2003)	1
D Cherry	3
H Mautner (appointed July 2003)	1

There were three meetings during the year.

Nomination Committee	Attendance
T Chandos	3
M Barber	3
P Duffy	3

There were three meetings during the year.

Directors' remuneration

The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each executive director. The terms of reference of the Remuneration Committee are available for inspection at the Company's registered office. A proportion of all executive directors' remuneration consists of cash bonuses (linked to corporate and individual performance achievements) the levels of which are determined by the Remuneration Committee. All the executive directors are eligible to participate in the Long Term Incentive Plan (LTIP) and Capital Appreciation Plan (CAP) which were both established on 18 December 2002 following shareholder consultation and approval. The fees of the non-executive directors are reviewed by the Board at regular intervals. The statement of remuneration policy and details of each director's remuneration are set out in the directors' remuneration report on pages 19 to 23.

Shareholder relations

The Company has always encouraged regular dialogue with its institutional shareholders and private investors at the AGM, through corporate functions and property visits. Update meetings are held with institutional shareholders following announcement of preliminary and interim results and as requested throughout the year. Directors are accessible to all shareholders and queries received verbally or in writing are immediately addressed. Directors are introduced to shareholders at the AGM including the identification of non-executives and committee chairmen.

Announcements are made to the London Stock Exchange and the business media concerning business developments to provide wider dissemination of information. Registered shareholders are sent copies of both the annual report and accounts and the interim report.

Corporate governance report

Accountability and audit

Financial reporting

The Company's annual report and accounts includes detailed reviews of the activity in relation to each division, together with a detailed review of its financial results and financing position. In this way, and as required by the Combined Code, the Board seeks to present a balanced and understandable assessment of the Company's position and prospects.

Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and for reviewing its effectiveness. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee on internal control, an ongoing process has been established for identifying, evaluating and managing risks faced by the Company. This process has been in place from the start of the financial year under review to the date of approval of these financial statements. In November 2003, the directors carried out their review of the effectiveness of the current system of internal control and updated the documentation of controls in place. Such a review is carried out once a year.

The risks for each of the divisions in the Group (Mall, Junction, Xscape/X-Leisure and Corporate) are classified into financial/administration risks, property risks and operational risks. The key features of the Company's system of internal control are as follows:

- Control documents for each area of risk which identify the key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level.
- Clearly defined organisational responsibilities and authority limits throughout the Group. The day-to-day involvement of the executive directors in the running of the business ensures that these responsibilities and limits are adhered to.
- Financial reporting to the Board including quarterly reports from the Fund Manager of the Mall and Junction Funds and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.
- An Audit Committee which meets with the auditors and deals with any significant internal control matter. In the year under review the Committee met with the auditors on five occasions and received a paper on the internal controls of the Company.

Due to the size of the Group it does not have an internal audit function and the Company believes that a need for such a function does not currently exist, although this is periodically reviewed.

Audit Committee

The Audit Committee consists of three non-executive directors whose details are set out on pages 16 and 17. The role of the Audit Committee is to maintain a relationship with the Group's auditors and review, in depth, the Company's financial statements, internal financial control and risk management systems and circulars to shareholders. The terms of reference of the Audit Committee are available for inspection at the Company's registered office. The Audit Committee is also responsible for reviewing the cost-effectiveness and the volume of non-audit services provided to the Group. The Company does not impose an automatic ban on the Group's auditor undertaking non-audit work. The Group's aim is always to have any non-audit work involving accountancy firms carried out in a manner that affords value for money. The accounting firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group. The Audit Committee meets prior to Board meetings to consider the interim and annual results and on an ad hoc basis at other times during the year. In 2003, the Committee met five times.

Going concern

In compliance with the Listing Rules of the Financial Services Authority the directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

Falguni Desai

F Desai
Company Secretary
8 April 2004

Corporate social responsibility

Capital & Regional plc recognises and acknowledges the conduct of its business has an impact on its employees, its partners, its tenants and suppliers and the community and environment of the property portfolio it manages. The Company's corporate governance report is set out on pages 26 to 28. The Company's relationship with its key stakeholders, its shareholders, is noted on page 27.

Employees

The Company is committed to a policy of equal opportunities for all employees, regardless of their sex, race or disability. The Company acknowledges the value of the contribution of its staff. Employees are encouraged to develop within the Company and, to facilitate this, training is encouraged and each employee is regularly appraised with a view to maximising his or her potential and contribution.

The Company places considerable value upon the involvement of its employees, at all levels, in its affairs and has continued its practice of keeping them regularly and systematically informed on matters of concern affecting them as employees and on the financial and economic factors affecting the Company's performance. Consultations with them or their representatives take place on a regular basis so that their views can be taken into account when decisions are made which are likely to affect their interests. This is achieved by regular meetings between management and employees at all levels.

Health and safety in the Group

The Company's aim is to develop a culture throughout its organisation that is committed to the prevention of injuries to, and ill health of, its employees or others that may be affected by its activities.

The Group has a nationally co-ordinated health and safety initiative which is contracted out. Procedures are reviewed at monthly management meetings with centre management by the Retail Development Managers. All properties are adequately insured to cover potential risks and annual risk assessments are carried out by the Group in consultation with the Group contractor and insurers.

The Company is committed to providing relevant information and necessary ongoing training to employees in respect of risks to health and safety which may arise out of their activities at the workplace.

All employees are offered private medical insurance as well as long-term disability cover.

Environmental policy

The Company is committed to delivering the highest standards of environmental policy implementation in the management of its retail and leisure property portfolio. The Company consults employees, shareholders, suppliers and customers alike to maintain high standards. The Company strives to achieve compliance with current legislation, particularly in the areas of energy and its efficient use and impact on the environment, recycling practices, water management and minimisation of use.

For example, during 2003, the Mall division achieved portfolio-wide reductions in the consumption of electricity, gas and water compared to the previous year. In each area, the actual reduction was achieved by refining measures already in place, for example, setting Mall lighting to match exact occupancy times and half-hourly electricity monitoring and targeting for all malls. The Mall division also recycles cardboard/paper generated by retailers, which has produced many financial benefits – mainly less waste to landfill sites and a return for tonnage in cardboard recycled. The Mall in 2003 recycled over 1,900 tonnes of cardboard. During 2004, the Mall division will participate in a national environmental benchmarking exercise with Upstream for all their malls, to compare performance with other shopping centre operators.

The Company also endeavours to include environmental considerations in the design and refurbishment of properties, applying and installing wherever practicable current best practice technology.

The Company is committed to continuous monitoring and feedback in order to adopt a responsible and positive approach to environmental issues.

Statement of directors' responsibilities

In respect of the preparation of financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Capital & Regional plc

We have audited the financial statements of Capital & Regional plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the note of historical cost profits and losses, the consolidated balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the consolidated cash flow, the Company balance sheet and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited 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 with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
13 April 2004

Consolidated profit and loss account

for the year ended 31 December 2003

	Notes	**Year to 31 December 2003 £000**	Period to 31 December 2002 £000
Turnover: Group income and share of joint ventures' turnover		**44,010**	34,998
Less: Share of joint ventures' turnover		**(4,554)**	(8,788)
Group turnover	2	**39,456**	26,210
Cost of sales		**(6,445)**	(5,763)
Gross profit		**33,011**	20,447
Profit on sale of trading and development properties		**25**	499
Exceptional loss on write-off of European development properties	4	**–**	(1,522)
Total profit/(loss) on disposal of trading and development properties	3	**25**	(1,023)
Administrative expenses		**(20,650)**	(14,261)
Group operating profit		**12,386**	5,163
Share of operating profit in joint ventures and associates	19a	**35,863**	27,298
Total operating profit		**48,249**	32,461
Exceptional costs of a fundamental reorganisation	4	**–**	(7,184)
Profit/(loss) on sale of investment properties and investments	3	**5,242**	(789)
Profit on sale of investment properties in joint ventures and associates	3	**2,385**	2,609
Profit on ordinary activities before interest		**55,876**	27,097
Interest receivable and similar income	5	**1,142**	1,043
Interest payable and similar charges – Group	6	**(7,287)**	(10,649)
– share of associates	6	**(19,789)**	(12,451)
– share of joint ventures	6	**(3,595)**	(2,967)
		(30,671)	(26,067)
Profit on ordinary activities before taxation	7	**26,347**	2,073
Taxation on profit on ordinary activities	11	**(6,966)**	(1,220)
Profit on ordinary activities after taxation		**19,381**	853
Equity minority interests		**–**	(8)
Profit attributable to the shareholders of the Company		**19,381**	845
Equity dividends paid and payable	13	**(5,602)**	(4,333)
Profit/(loss) retained in the year	29	**13,779**	(3,488)
Earnings per share	14	**31.4p**	1.3p
Earnings per share – diluted	14	**27.3p**	1.2p

The results of the Group for the year related entirely to continuing operations.

Note of historical cost profits and losses

for the year ended 31 December 2003

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Reported profit on ordinary activities before taxation	**26,347**	2,073
Realisation of property revaluation surplus of previous years	**7,866**	46,762
Realisation of property revaluation surplus of previous years in joint ventures and associates	**2,256**	1,111
Historical cost profit on ordinary activities before taxation	**36,469**	49,946
Historical cost profit for period retained after taxation, minority interests and dividends	**20,249**	40,829

Consolidated balance sheet

as at 31 December 2003

	Notes	31 December 2003 £000	(Restated – see note 1) 31 December 2002 £000
Fixed assets			
Intangible assets	15	**14,540**	–
Property assets	16	**51,457**	55,475
Other fixed assets	17	**12,282**	12,934
		78,279	68,409
Investment in joint ventures – share of gross assets		**183,769**	77,857
– share of gross liabilities		**(127,277)**	(53,168)
	19c	**56,492**	24,689
Investment in associates	19b	**372,676**	286,367
		507,447	379,465
Current assets			
Property assets	20	**7,941**	7,773
Debtors – amounts falling due after more than one year	21	**274**	84
– amounts falling due within one year	21	**24,202**	27,241
Cash at bank and in hand	22	**4,475**	4,159
		36,892	39,257
Creditors: Amounts falling due within one year	23	**(37,232)**	(28,946)
Net current (liabilities)/assets		**(340)**	10,311
Total assets less current liabilities		**507,107**	389,776
Creditors: Amounts falling due after more than one year (including convertible debt)	24	**(137,780)**	(117,041)
Provisions for liabilities and charges	27	**(2,201)**	(2,397)
Net assets	2	**367,126**	270,338
Capital and reserves			
Called-up share capital	28	**6,311**	6,175
Share premium account	29	**165,574**	162,752
Revaluation reserve	29	**145,245**	74,006
Other reserves	29	**2,468**	4,069
Profit and loss account	29	**47,528**	23,336
Equity shareholders' funds		**367,126**	270,338
Net assets per share	30	**591p**	438p
Adjusted fully diluted net assets per share	30	**521p**	392p

The financial statements were approved by the Board of Directors and signed on its behalf on 8 April 2004 by:

M Barber
W Sunnucks

Statement of total recognised gains and losses

for the year ended 31 December 2003

	Notes	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Profit before tax		**26,347**	2,073
Movements in revaluation reserve – on investment properties		**1,111**	509
– on other fixed assets		**(620)**	(920)
– on properties held in joint ventures and associates		**80,870**	38,302
Gains on deemed disposals		**4,498**	2,377
Minority interests		**–**	(8)
Total gains before tax		**112,206**	42,333
Tax shown in profit and loss account		**(6,966)**	(1,220)
Tax on revaluation surplus realised		**(3,651)**	(3,556)
Deferred tax		**–**	(485)
Total tax charge		**(10,617)**	(5,261)
Total recognised gains and losses for the year		**101,589**	37,072
Return on equity for the year	31	**37.6%**	14.6%

The total recognised gains and losses since the last annual report, including the prior year adjustment of £335,000 (see note 1), are £101,924,000.

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2003

	Notes	Year to 31 December 2003 £000	(Restated) Period to 31 December 2002 £000
Profit for the period attributable to shareholders of the Company		**19,381**	845
Equity dividends paid and payable		**(5,602)**	(4,333)
Profit/(loss) retained in the period		**13,779**	(3,488)
Share capital and share premium issued in the year (net of expenses)		**2,958**	868
Share capital purchased and cancelled in the year (including expenses)		**–**	(50,845)
Other recognised gains and losses relating to the year		**82,208**	36,227
Purchase of own shares		**(3,341)**	(220)
LTIP credit in respect of profit and loss charge		**1,184**	555
Net increase in/(reduction to) shareholders' funds		**96,788**	(16,903)
Opening shareholders' funds as previously reported		**270,003**	287,241
Prior year adjustment	1	**335**	
Opening shareholders' funds as restated		**270,338**	
Closing shareholders' funds		**367,126**	270,338

Consolidated cash flow statement

for the year ended 31 December 2003

	Notes	Year to 31 December 2003 £000	(Restated) Period to 31 December 2002 £000
Net cash inflow from operating activities	33a	**28,947**	2,251
Dividends received from joint ventures		**350**	3,355
Dividends received from associates		**14,344**	9,418
		14,694	12,773
Returns on investments and servicing of finance			
Interest received		**329**	447
Interest paid		**(7,867)**	(15,158)
Loan arrangement costs		**(382)**	(374)
		(7,920)	(15,085)
		35,721	(61)
Taxation			
UK corporation tax paid		**(6,432)**	(7,679)
UK corporation tax recovered	`	**936**	73
		(5,496)	(7,606)
		30,225	(7,667)
Capital expenditure and financial investment			
Payments for – additions to investment properties		**(43,169)**	(18,510)
– additions to properties held as current assets		**(911)**	(9,544)
– additions to other tangible assets		**(290)**	(280)
– loans to joint ventures		**–**	(850)
Receipts from – sale of investment properties		**52,158**	645,842
– sale of properties held as current assets		**641**	28,122
– sale of other tangible assets		**12**	6
– sale of investments		**1**	20,203
– repayment of loans by joint ventures		**–**	8,050
		8,442	673,039
		38,667	665,372
Acquisitions and disposals and exceptional item			
Additions to joint ventures and associates		**(16,851)**	(262,203)
Costs of fundamental reorganisation		**–**	(7,016)
Acquisitions	15	**(31,357)**	–
		(48,208)	(269,219)
		(9,541)	396,153
Equity dividends paid		**(4,985)**	(4,623)
Cash (outflow)/inflow before financing		**(14,526)**	391,530
Financing			
Issue of ordinary share capital		**2,958**	868
Share capital purchased and cancelled in the year		**–**	(50,845)
Purchase of own shares		**(3,338)**	(220)
Bank loans received		**79,972**	118,800
Bank loans repaid		**(64,750)**	(464,541)
		14,842	(395,938)
Increase/(decrease) in cash	33b/c	**316**	(4,408)

Company balance sheet

as at 31 December 2003

	Notes	**2003 £000**	2002 £000
Fixed assets			
Other investments	18	**126,313**	121,596
Current assets			
Debtors – amounts falling due after more than one year	21	**13,500**	13,500
– amounts falling due within one year	21	**252,088**	249,220
Cash at bank and in hand		**478**	348
		266,066	236,068
Creditors: Amounts falling due within one year	23	**(131,865)**	(116,745)
Net current assets		**134,201**	146,323
Total assets less current liabilities		**260,514**	267,919
Creditors: Amounts falling due after more than one year (including convertible debt)	24	**(34,997)**	(50,401)
Net assets		**225,517**	217,518
Capital and reserves			
Called-up share capital	28	**6,311**	6,175
Share premium account	29	**165,634**	162,812
Other reserves	29	**4,289**	4,289
Profit and loss account	29	**49,283**	44,242
Equity shareholders' funds		**225,517**	217,518

The financial statements were approved by the Board of Directors and signed on its behalf on 8 April 2004 by:

M Barber
W Sunnucks

Notes to the accounts

for the year ended 31 December 2003

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and, except for the non-depreciation of investment properties referred to below, with the Companies Act 1985. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties and investments, using the following principal accounting policies. These have been applied consistently, with the exception of UITF 38,"Accounting for ESOP trusts", which has been adopted for the first time in these financial statements.

The financial statements have been prepared for the year ended 31 December 2003. The comparative figures are for the 53-week period ended 31 December 2002.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Capital & Regional plc and its consolidated entities, associated companies and joint ventures for the year ended 31 December 2003. Where necessary, the financial statements of associated companies and joint ventures are adjusted to conform with the Group's accounting policies. Subsidiaries have been consolidated under the acquisition method of accounting and the results of companies acquired during the period are included from the date of acquisition. Goodwill on consolidation represents the difference between the purchase consideration and the fair value of net assets acquired and is capitalised in the period in which it arises and is amortised over its useful economic life.

Goodwill

Goodwill, being the difference between the cost of businesses acquired and the fair value of their separable net assets, is included in the balance sheet as an intangible asset and is amortised over its useful economic life.

Joint ventures and associates

In accordance with FRS 9, "Associates and joint ventures", joint ventures are included in the accounts under the gross equity method of accounting, and associates under the net equity method.

Depreciation

Depreciation is provided on all tangible fixed assets, other than investment properties and land, over their expected useful lives:

Buildings	– over fifty years, on a straight-line basis
Fixtures and fittings	– over three to five years, on a straight-line basis
Motor vehicles	– over four years, on a straight-line basis.

Investment properties

Investment properties are included in the financial statements at valuation less any unamortised tenant incentives. The aggregate surplus or temporary deficit below cost arising from such valuations is transferred to a revaluation reserve. Deficits that are expected to be permanent are charged to the profit and loss account.

The Group's policy is to value investment properties twice a year. On realisation any gain or loss is calculated by reference to the carrying value at the last financial year-end balance sheet date and is included in the profit and loss account. Any balance in the revaluation reserve is transferred to the profit and loss reserve.

In accordance with SSAP 19, "Accounting for investment properties", no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years unexpired. The Companies Act 1985 requires all properties to be depreciated, but that requirement conflicts with the generally accepted principle set out in SSAP 19. Depreciation is only one of many factors reflected in the annual valuation of properties and the amount of depreciation or amortisation, which might otherwise have been charged, cannot be separately identified or quantified.

Properties under development

Interest and directly attributable internal and external costs incurred during the period of development are capitalised. Interest is capitalised gross before deduction of related tax relief. Interest is calculated on the development expenditure by reference to specific borrowings where relevant. A property ceases to be treated as being under development when substantially all activities that are necessary to get the property ready for use are complete.

Refurbishment expenditure

Refurbishment expenditure in respect of major works is capitalised. Renovation and refurbishment expenditure of a revenue nature is written off as incurred.

Notes to the accounts

1 Accounting policies continued

Property transactions
Acquisitions and disposals are accounted for at the date of legal completion. Properties are transferred between categories at the estimated market value on the transfer date.

Current property assets
Properties held with the intention of disposal and properties held for development are valued at the lower of cost and net realisable value.

Tenant incentives
In accordance with UITF 28, "Operating lease incentives", rent frees given to tenants are credited to the profit and loss account and amortised over the earlier of either the period of the lease, or to when the rent is adjusted to the prevailing market rate, usually the first rent review. Capital contributions given to tenants are shown as a current asset, and amortised over the earlier of either the period of the lease, or to when the rent is adjusted to the prevailing market rate, usually the first rent review. On the disposal of properties, the balance of the unamortised tenant incentives is charged to the disposal of investment properties.

Loan arrangement costs
Costs relating to the raising of general corporate loan facilities and loan stock are amortised over the estimated life of the loan and charged to the profit and loss account as part of the interest expense. The bank loans and loan stock are disclosed net of unamortised loan issue costs.

Operating leases
Annual rentals under operating leases are charged to the profit and loss account as incurred.

Deferred taxation
Deferred tax is provided in accordance with FRS 19, "Deferred tax", on all timing differences which have originated but not reversed at the balance sheet date. Deferred tax is measured on a non-discounted basis. On disposal of a property, any provision for deferred tax no longer required will be released to the profit and loss account. Deferred tax is not provided on revaluation gains unless by the balance sheet date there is a binding agreement to sell the assets, and the gain or loss arising on sale has been recognised in the financial statements.

Pension costs
Pension liabilities, all of which relate to defined contribution schemes, are charged to the profit and loss account in the year in which they accrue.

Long Term Incentive Plan (LTIP)
For share schemes that contingently award shares at no cost to the participant, a charge is recognised systematically in the profit and loss account over the LTIP performance period based on the directors' estimate of the extent that the related performance criteria will be met, with a corresponding credit in the profit and loss reserve.

Own shares
In accordance with UITF 38, own shares held by the Group are shown as a deduction from shareholders' funds, and included in other reserves. The cost of own shares is transferred from other reserves to the profit and loss reserve systematically over the LTIP performance period. The comparatives have been restated to comply with the requirements of UITF 38. The effects of this restatement on the current and prior years are summarised below. There has been no effect on the 2002 profit and loss account.

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Balance sheet		
(Reduction)/increase in net assets	**(1,821)**	335

Performance fees
Performance fees relating to the performance period 1 January 2002 to 31 December 2003 have been credited to the profit and loss account for the current year, and will be received on 1 December 2004.

2 Segmental analysis

	Asset management £000	Snow slope business £000	Share of joint ventures and associates £000	Wholly owned properties £000	**Year to 31 December 2003 £000**	Period to 31 December 2002 £000
Asset management fees	15,757				**15,757**	7,262
Performance fees	13,292				**13,292**	2,781
Snozone income		5,546			**5,546**	4,044
Rental and other income				4,861	**4,861**	12,123
Group turnover	29,049	5,546		4,861	**39,456**	26,210
Share of joint ventures' and associates' operating profit			35,863		**35,863**	27,298
Direct expenses		(5,100)		(1,345)	**(6,445)**	(5,763)
Amortisation	(1,162)				**(1,162)**	–
Net interest payable – non and limited recourse			(22,545)		**(22,545)**	(14,956)
– own borrowings (net)			(4,593)	(2,391)	**(6,984)**	(10,068)
Contribution	27,887	446	8,725	1,125	**38,183**	22,721
Indirect expenses					**(19,488)**	(14,261)
Profit on disposals (net)					**7,652**	2,319
Profit before exceptional items					**26,347**	10,779
Exceptional items					**–**	(8,706)
Profit before taxation					**26,347**	2,073
Net assets	25,216	698	331,262	9,950	**367,126**	270,338

Turnover, profit on ordinary activities before taxation and net assets all arise in the UK with the exception of a loss before taxation in 2002 of £1,522,000 which related to continental Europe (see note 4).

3 Asset sales

	Fixed assets		Current assets		Total	
	Year to 31 December 2003 £000	Period to 31 December 2002 £000	**Year to 31 December 2003 £000**	Period to 31 December 2002 £000	**Year to 31 December 2003 £000**	Period to 31 December 2002 £000
Net sale proceeds	**51,205**	655,442	**129**	34,229	**51,334**	689,671
Cost of sales	**(35,840)**	(618,431)	**(104)**	(35,252)	**(35,944)**	(653,683)
Historical cost profit/(loss)	**15,365**	37,011	**25**	(1,023)	**15,390**	35,988
Revaluation surplus	**10,123**	39,061	**–**	–	**10,123**	39,061
Profit/(loss) on disposal	**5,242**	(2,050)	**25**	(1,023)	**5,267**	(3,073)
Profit on disposal of investment	**–**	1,261	**–**	–	**–**	1,261
	5,242	(789)	**25**	(1,023)	**5,267**	(1,812)
Share of associates and joint ventures (see note 19)	**2,385**	2,609	**–**	–	**2,385**	2,609
Profit/(loss) recognised on sale of assets	**7,627**	1,820	**25**	(1,023)	**7,652**	797

Notes to the accounts

4 Exceptional items

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Exceptional loss on write-off of European development properties	–	1,522
Exceptional costs of a fundamental reorganisation – loan breakage costs	–	3,949
– transaction costs	–	2,150
– Group reorganisation costs	–	1,085
	–	7,184
Total exceptional costs	–	8,706

Group reorganisation costs included the redundancy costs of seven members of staff.

5 Interest receivable and similar income

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Bank interest	135	342
Interest from joint ventures and associates	–	132
Other interest	168	106
	304	580
Share of joint ventures and associates	839	463
	1,142	1,043

6 Interest payable and similar charges

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Bank loans and overdrafts wholly repayable within five years	6,479	9,498
Other loans	1,754	1,684
	8,233	11,182
Capitalised during the year/period	(946)	(533)
	7,287	10,649
Share of joint ventures	3,595	2,967
Share of associates	19,789	12,451
	30,671	26,067

The interest charge includes £257,000 (2002: £378,000) of loan arrangement costs amortised during the year.

7 Profit on ordinary activities before taxation

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
This is arrived at after charging:		
Profit on disposal of other fixed assets	**(7)**	(6)
Depreciation – owned assets	**425**	482
Amortisation of short leasehold properties	**203**	203
Amortisation of negative goodwill	**(107)**	90
Auditors' remuneration (see below)	**166**	148
Operating lease rentals for land and buildings	**357**	543
Operating lease rentals for plant and machinery	**96**	18

The Group's auditors also charged the following amounts for the provision of non-audit services during the period:

	2003 £000	2002 £000
General taxation advice	**115**	83
Other	**59**	372
	174	455

In addition, the auditors received fees of £110,000 for due diligence work carried out in respect of the acquisition of the MWB fund management business, which have been included in the cost of that acquisition.

The auditors' remuneration for the Group includes £8,000 (2002: £8,000) in respect of the parent company.

Operating lease commitments for land and buildings (all expiring in more than five years) are £266,000 (31 December 2002: £80,000).

Operating lease commitments for plant and machinery are £80,000 (31 December 2002: £11,000).

8 Performance fees

The Group is entitled to earn performance fees under its management contracts with the Mall and Junction Funds. The fees are dependent upon performance during the previous three-year period. Thus 2003 performance will have an impact on the performance fees earned in 2004 and 2005.

Performance fees may be subject to clawback in subsequent years and any clawback would be recognised in the year in which it occurs.

9 Employee information

The average number of persons employed by the Group during the year was as follows:

	Average number of employees During 2003	During 2002
Central management	**111**	88
Snow slope business	**118**	100
Direct property services	**2**	4
	231	196

In addition, 268 people were employed at the shopping centres (2002: 134). Their costs are recharged directly to tenants and excluded from the figures above.

Notes to the accounts

9 Employee information continued

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Staff costs (including directors) consist of:		
Salaries	**8,700**	6,654
Discretionary bonuses and letting commissions	**3,268**	2,407
Total salaries	**11,968**	9,061
Social security costs	**1,244**	1,012
Other pension costs	**154**	197
	13,366	10,270

10 Directors' emoluments

Details of directors' remuneration by director and details of their interests in the share capital of the Company and details of the Group's incentive schemes are set out in the directors' remuneration report on pages 19 to 23.

11 Taxation

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Current tax		
UK corporation tax (at 30%)	**6,330**	580
Tax credit in respect of exceptional items	**–**	(1,510)
Prior year	**832**	(274)
Share of joint ventures	**–**	177
Total current tax	**7,162**	(1,027)
Deferred tax		
Origination and reversal of timing differences	**(196)**	2,247
Total taxation	**6,966**	1,220
Tax reconciliation		
Group profit on ordinary activities	**26,347**	2,073
Tax on profit on ordinary activities at UK corporation tax rate of 30%	**7,904**	622
Effects of – capital allowances	**(984)**	(2,776)
– tax losses and other timing differences	**605**	(503)
– benefit of indexation allowances	**(937)**	–
– expenses not deductible for tax purposes	**(258)**	1,904
– adjustment in respect of prior years	**832**	(274)
Total current tax	**7,162**	(1,027)

Taxation recognised in the STRGL (see page 34)

The tax on revaluation surplus recognised of £3,651,000 is in respect of capital gains on dilution of the Group's interest in the Mall Fund and gains arising in respect of prior year revaluations realised on disposals to third parties.

Factors affecting future tax rate

The Group expects to be able to claim capital allowances in future periods in excess of depreciation.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. The total amount unprovided is £31,804,000 (2002: £13,996,000).

12 Profit of the holding company

Of the profit for the period attributable to shareholders, a profit of £10,643,000 (2002: £15,410,000) has been dealt within the accounts of the holding company and is made up as follows:

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Dividends from subsidiaries	**13,710**	29,556
Net operating costs including interest and tax	**(3,067)**	(14,146)
	10,643	15,410

The Company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

13 Equity dividends paid and payable

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Interim of 4p per share paid on 17 October 2003 (2002: 3p per share)	**2,505**	1,863
Proposed final of 5p per share payable on 18 June 2004 (2002: 4p per share)	**3,097**	2,470
	5,602	4,333

14 Earnings per share

	Year to 31 December 2003		
	Earnings £000	**Number of shares**	**Earnings per share**
Basic	**19,381**	**61,758,939**	**31.4p**
Exercise of share options	**–**	**1,062,488**	
Conversion of Convertible Unsecured Loan Stock	**1,218**	**12,670,912**	
Diluted	**20,599**	**75,492,339**	**27.3p**

	Period to 31 December 2002		
	Earnings £000	Number of shares	Earnings per share
Basic	845	67,339,312	1.3p
Exercise of share options	–	607,924	
Diluted	845	67,947,236	1.2p

The calculation includes the full conversion of the Convertible Subordinated Unsecured Loan Stock where the effect on earnings per share is dilutive. Own shares held are excluded from the weighted average number of shares.

Notes to the accounts

15 Intangible assets

Purchase of MWB fund management business and interest in Leisure Funds

On 24 January 2003, the Group acquired the MWB fund management business for a total consideration of £31,357,000 which included MWB's 13.29% interest in Leisure Fund I, 5.72% interest in Leisure Fund IIa and 7.09% interest in Leisure Fund IIb. The total cash consideration paid, including acquisition costs, was £31,357,000.

The book value and fair value of the assets acquired is shown below.

	£000
Limited partner interest in Leisure Funds I, IIa and IIb	13,955
Deferred fees	1,700
Goodwill	15,702
Total cash cost of acquisition	**31,357**

The goodwill is being amortised over 12.5 years. The cost of goodwill was £15,702,000, the amortisation charge for the year was £1,162,000 and the carried forward balance is £14,540,000.

16 Property assets

	Investment properties		
	Freehold properties £000	Leasehold properties £000	Total £000
Group			
Cost or valuation:			
As at 31 December 2002	39,346	16,589	55,935
Unamortised tenant incentives	(166)	(294)	(460)
	39,180	16,295	55,475
Additions	–	41,672	41,672
Amortisation of short leasehold properties	–	(203)	(203)
Disposals	(37,488)	(9,110)	(46,362)
Revaluation	–	1,111	1,111
As at 31 December 2003	**1,692**	**49,765**	**51,457**
The year-end balance is analysed as follows:			
Historical cost	1,430	48,915	50,345
Revaluation surplus	262	850	1,112

A list of the valuers, and the basis of the valuations, are summarised in note 32.

	2003 £000
The year-end balance for leasehold properties is analysed as follows:	
Leaseholds with more than 50 years to run	**45,125**
Leaseholds with between 20 and 50 years to run	**1,300**
Leaseholds with less than 20 years to run	**3,340**
	49,765

The net book value of property assets includes £800,000 (2002: £206,000) in respect of capitalised interest.

As at 31 December 2003 the Group had capital commitments of £19,359,000 (31 December 2002: nil).

17 Other fixed assets

	Long leasehold land and buildings £000	Fixtures and fittings £000	Motor vehicles £000	Negative goodwill £000	Total £000
Group					
Cost or valuation					
As at 31 December 2002	12,740	1,827	32	(223)	14,376
Additions	–	257	42	–	299
Disposals	–	(241)	(33)	–	(274)
Revaluation	(620)	–	–	–	(620)
As at 31 December 2003	**12,120**	**1,843**	**41**	**(223)**	**13,781**
Depreciation					
As at 31 December 2002	240	1,274	22	(94)	1,442
Provided for year	80	334	11	(107)	318
Disposals	–	(241)	(20)	–	(261)
As at 31 December 2003	**320**	**1,367**	**13**	**(201)**	**1,499**
Net book values					
As at 31 December 2003	**11,800**	**476**	**28**	**(22)**	**12,282**
As at 31 December 2002	12,500	553	10	(129)	12,934

The negative goodwill arose from the acquisition of the minority interest in Easter Capital Investment Holdings Limited. A proportion of the negative goodwill has been credited to the profit and loss account on the disposal of the non-monetary assets acquired.

The long leasehold land and buildings represents the Group's head office, which was independently valued at 31 December 2003. A list of the valuers, and the basis of the valuations, are summarised in note 32. The historical cost of the long leasehold land and buildings is £13,620,000. The lease has more than 50 years remaining.

18 Other investments

	Company shares in subsidiary and joint venture undertakings £000
Valuation	
As at 31 December 2002	121,596
Additions	5,161
Disposals	(1)
Write-down in value of investments	(443)
As at 31 December 2003	**126,313**

A list of principal subsidiaries and joint venture undertakings is given in note 36.

19a Associates and joint ventures

Share of operating profit

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Associates	**32,256**	23,894
Joint ventures	**3,607**	3,404
	35,863	27,298

Notes to the accounts

19b Investment in associates

	2003 £000	2002 £000
At the beginning of the year/period	**286,367**	–
Subscription for partnership capital and advances	**19,012**	250,050
Dividends and capital distributions receivable	**(15,608)**	(11,946)
Share of results (see below)	**15,527**	11,993
Share of property revaluation surplus (see below)	**62,752**	34,315
Realised/(unrealised) profit on disposals to associates	**128**	(422)
Unrealised gain from deemed disposal	**4,498**	2,377
At the end of the year/period	**372,676**	286,367

Analysis of investment in associates

	The Mall LP £000	The Junction LP £000	X-Leisure LPs £000	Total to 31 December 2003 £000	Total to 31 December 2002 £000
Profit and loss account (100%)					
Turnover	86,662	35,147	33,811	**155,620**	75,142
Property expenses	(12,378)	(1,684)	(3,483)	**(17,545)**	(10,127)
Net rental income	74,284	33,463	30,328	**138,075**	65,015
Fund and property management expenses	(6,083)	(4,759)	(2,449)	**(13,291)**	(6,805)
Performance fees	(15,015)	(2,916)	–	**(17,931)**	(3,708)
Administrative expenses	(1,576)	(1,222)	(2,176)	**(4,974)**	(2,659)
Share of joint ventures' operating profit	–	3,105	–	**3,105**	–
Operating profit	51,610	27,671	25,703	**104,984**	51,843
Sale of investment properties	–	8,158	–	**8,158**	477
Net interest payable	(27,537)	(19,328)	(20,523)	**(67,388)**	(26,322)
Profit before and after tax	24,073	16,501	5,180	**45,754**	25,998
Balance sheet (100%)					
Investment properties and joint ventures	1,240,332	747,786	496,888	**2,485,006**	1,260,018
Current assets	59,939	67,360	24,388	**151,687**	54,591
Current liabilities	(60,520)	(37,986)	(48,712)	**(147,218)**	(50,592)
Borrowing due in more than one year	(542,441)	(368,364)	(291,281)	**(1,202,086)**	(539,848)
Net assets (100%)	697,310	408,796	181,283	**1,287,389**	724,169
C&R interest at period end	34.77%	28.37%	13.29% 5.72% 7.09%		
Group share of					
Turnover	38,052	9,812	2,574	**50,438**	34,632
Operating profit	22,661	7,725	1,870	**32,256**	23,894
Sale of investment properties	–	2,278	–	**2,278**	174
Net interest payable	(12,091)	(5,396)	(1,520)	**(19,007)**	(12,075)
Profit before and after tax	10,570	4,607	350	**15,527**	11,993
Revaluation surplus for the year	41,459	20,611	682	**62,752**	34,315
Investment properties and joint ventures	431,276	212,147	39,712	**683,135**	505,769
Current assets	20,841	19,110	1,987	**41,938**	22,804
Current liabilities	(21,043)	(10,777)	(3,366)	**(35,186)**	(21,106)
Borrowing due in more than one year	(188,612)	(104,505)	(23,800)	**(316,917)**	(220,678)
Associate net assets	242,462	115,975	14,533	**372,970**	286,789
Unrealised profit on sale of property to associate	(294)	–	–	**(294)**	(422)
Group share of associate net assets	242,168	115,975	14,533	**372,676**	286,367

19c Investment in joint ventures

	2003 £000	2002 £000
At the beginning of the year/period	**24,689**	29,483
Subscription for partnership capital and advances	**13,698**	12,153
Dividends and capital distributions receivable	**(350)**	(3,312)
Share of results (see below)	**176**	2,960
Share of taxation and minority interests	**161**	(185)
Share of property revaluation surplus (see below)	**18,118**	3,987
Disposal of investment	**–**	(20,397)
At the end of the year/period	**56,492**	24,689

Analysis of investment in joint ventures

	Xscape Milton Keynes Partnership £000	Xscape Castleford Partnership £000	Auchinlea Partnership £000	Morrison Merlin £000	Others £000	Total to 31 December 2003 £000	Total to 31 December 2002 £000
Profit and loss account (100%)							
Turnover	3,956	960	580	3,292	–	**8,788**	17,577
Property expenses	(555)	(197)	(303)	(291)	(100)	**(1,446)**	(11,380)
Net rental income	3,401	763	277	3,001	(100)	**7,342**	6,197
Fund and property management expenses	(100)	(25)	–	–	–	**(125)**	–
Administrative expenses	(14)	(16)	(78)	(103)	(30)	**(241)**	633
Operating profit/(loss)	3,287	722	199	2,898	(130)	**6,976**	6,830
Sale of investment properties	–	–	–	–	214	**214**	4,871
Net interest (payable)/receivable	(3,211)	(689)	(972)	(2,008)	32	**(6,848)**	(5,761)
Profit/(loss) before tax	76	33	(773)	890	116	**342**	5,940
Balance sheet (100%)							
Investment properties	76,090	59,730	118,050	–	–	**253,870**	133,340
Current assets	4,269	7,137	1,947	76,591	1,450	**91,394**	11,317
Current liabilities	(2,376)	(5,716)	(53,778)	(3,201)	(594)	**(65,665)**	(9,099)
Borrowing due in more than one year	(46,800)	(46,385)	(4,405)	(62,500)	–	**(160,090)**	(77,450)
Net assets (100%)	31,183	14,766	61,814	10,890	856	**119,509**	58,108
C&R interest at period end	50.0%	66.7%	50.0%	50.0%	50.0%		
Group share of							
Turnover	1,978	640	290	1,646	–	**4,554**	8,788
Operating profit/(loss)	1,644	482	100	1,449	(68)	**3,607**	3,404
Sale of investment properties	–	–	–	–	107	**107**	2,435
Net interest (payable)/receivable	(1,605)	(459)	(486)	(1,004)	16	**(3,538)**	(2,879)
Profit/(loss) before tax	39	23	(386)	445	55	**176**	2,960
Revaluation surplus for the year	786	4,123	13,209	–	–	**18,118**	3,987
Investment properties	38,045	39,840	59,025	–	–	**136,910**	71,828
Current assets	2,135	4,761	974	38,296	725	**46,891**	6,031
Current liabilities	(7,220)	(3,818)	(26,889)	(1,423)	(167)	**(39,517)**	(11,169)
Borrowing due in more than one year	(23,400)	(30,939)	(2,203)	(31,250)	–	**(87,792)**	(42,001)
Group share of joint venture net assets	9,560	9,844	30,907	5,623	558	**56,492**	24,689

A list of valuers and the basis of the valuation are summarised in note 32.

The joint ventures all operate in the UK. Capital & Regional's share of net assets of Xscape Milton Keynes Partnership is less than its 50% interest due to the accumulated preferred return payable on additional non-equity capital provided by joint venture partners.

Notes to the accounts

20 Current property assets

	Group	
	2003 **£000**	2002 £000
Properties held for disposal	**7,765**	7,726
Properties under development	**176**	47
	7,941	7,773

The net book value of current property assets includes £384,000 (2002: £295,000) in respect of capitalised interest.

21 Debtors

	Group		Company	
	2003 **£000**	2002 £000	**2003** **£000**	2002 £000
Amounts falling due after more than one year				
Amounts owed by subsidiaries	**–**	–	**13,500**	13,500
Prepayments	**274**	84	**–**	–
	274	84	**13,500**	13,500
Amounts falling due within one year				
Trade debtors	**1,068**	3,079	**–**	–
Amounts owed by subsidiaries	**–**	–	**233,249**	247,437
Amounts owed by joint ventures	**218**	42	**–**	–
Amounts owed by associates	**15,136**	17,385	**–**	–
Other debtors	**329**	3,228	**13**	–
Tax recoverable	**1,088**	645	**–**	–
Prepayments and accrued income	**6,363**	2,862	**18,826**	1,783
	24,202	27,241	**252,088**	249,220

22 Cash at bank and in hand

Cash at bank includes £616,000 (2002: £166,000) specifically held as security deposits and retained in rent accounts and not freely available to the Group for day-to-day commercial purposes.

23 Creditors: Amounts falling due within one year

	Group		Company	
	2003 **£000**	2002 £000	**2003** **£000**	2002 £000
Bank loans (secured)	**–**	3,285	**105**	94
Amounts owed to subsidiaries	**–**	–	**128,501**	113,825
Trade creditors	**1,983**	1,167	**13**	–
Other creditors	**2,647**	3,322	**34**	30
Taxation and social security	**1,019**	1,010	**–**	77
Corporation tax	**8,828**	2,906	**–**	–
Accruals and deferred income	**19,658**	14,786	**103**	249
Proposed dividends	**3,097**	2,470	**3,109**	2,470
	37,232	28,946	**131,865**	116,745

24 Creditors: Amounts falling due after more than one year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Bank loans (secured) (see note 26)	**110,472**	92,000	**10,500**	26,000
Unamortised issue costs	**(385)**	(241)	**–**	(4)
	110,087	91,759	**10,500**	25,996
Convertible loan stock (unsecured) (see note 25)	**24,642**	24,642	**24,642**	24,642
Unamortised issue costs	**(145)**	(237)	**(145)**	(237)
	24,497	24,405	**24,497**	24,405
Other creditors	**3,196**	877	**–**	–
	137,780	117,041	**34,997**	50,401

25 Convertible Subordinated Unsecured Loan Stock

	Group and Company	
	2003 £000	2002 £000
Convertible loan stock	**24,642**	24,642
Unamortised loan issue costs due after one year	**(145)**	(237)
	24,497	24,405
Unamortised loan issue costs due within one year	**(91)**	(91)
	24,406	24,314

The Convertible Subordinated Unsecured Loan Stock (CULS) may be converted by the holders of the stock into 51.42 (2002: 51.42) ordinary shares per £100 nominal value CULS in any of the years 1997 to 2015 inclusive, representing a conversion price of 194p (2002: 194p) per ordinary share. The Company has the right to redeem at par the CULS in any year from 2006 to 2016. The CULS are unsecured and are subordinated to all other forms of unsecured debt but rank in priority to the holders of the ordinary shares in the Company.
The CULS carry interest at an annual rate of 6.75%, payable in arrears on 30 June and 31 December in each year.

In accordance with FRS 4, “Financial instruments”, the CULS are shown net of unamortised loan issue costs.

Notes to the accounts

26 Financial instruments

Details of the Group's objectives and strategies with regard to financial instruments are set out in the Finance Director's review.
The disclosures set out below exclude short-term debtors and creditors as permitted by FRS 13, "Derivatives and financial instruments".

The Group's only financial asset is cash of £4,475,000 (2002: £4,159,000). Cash is held at bank and on short-term deposits of up to one week and attracts interest at rates based on LIBOR.

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

	2003 £000	Weighted average interest rate	Weighted average period Years	2002 £000	Weighted average interest rate	Weighted average period Years
CULS	**24,642**	6.75%	12.3	24,642	6.75%	13.3
Fixed and swapped bank loans	**71,000**	5.23%	3.5	–	–	–
Variable rate bank loans	**39,672**	5.05%	n/a	95,480	5.12%	n/a
Group borrowings on balance sheet	**135,314**	5.46%		120,092	5.45%	

The bank loans are secured on the Group's interest in The Mall Limited Partnership, The Junction Limited Partnership and on specific properties.

Variable-rate loan interest rates are based on three-month LIBOR.

A valuation was carried out by JC Rathbone Associates Limited as at 31 December 2003 and 31 December 2002 to calculate the market value of the fixed-rate instruments on a replacement basis. The table below shows the book value and fair value of the Group's fixed-rate debt instruments, and its share of those in joint ventures and associates. The difference between the interest rate yield curve as at 31 December 2003 and the rate historically committed is the fair value adjustment.

	Book value £000	Fair value £000	**Fair value adjustment 2003 £000**	Fair value adjustment 2002 £000
CULS	24,642	24,642	**–**	–
Fixed and swapped loans – on balance sheet	71,000	69,352	**1,648**	–
– Group share of associates	250,960	250,443	**517**	(5,470)
– Group share of joint ventures	88,250	87,632	**618**	(1,107)
Total interest rate swaps	434,852	432,069	**2,783**	(6,577)
Net of tax at 30% (2002: 30%)			**1,948**	(4,604)

The bank loans are repayable as follows:

	2003 £000	2002 £000
Aggregate amount repayable:		
Between one and two years	**1,500**	9,000
Between two and five years	**108,972**	34,300
Greater than five years	**–**	48,700
Total loans due after more than one year	**110,472**	92,000
Loans due in one year or less or on demand	**200**	3,450
Total loans	**110,672**	95,450

Currency profile: All monetary assets and liabilities are denominated in sterling.

At 31 December 2003 the Group had undrawn facilities of £52 million (31 December 2002: £43.5 million).

27 Provision for liabilities and charges

Deferred taxation

The amounts of deferred taxation provided and unprovided in the accounts are as follows:

	Provided 2003 £000	Provided 2002 £000	**Not provided 2003 £000**	Not provided 2002 £000
Tax on capital gains if investment assets were sold at their current valuation	**–**	–	**31,804**	13,996
Accelerated capital allowances and other timing differences	**2,201**	2,397	**–**	–
	2,201	2,397	**31,804**	13,996

If a provision was made for deferred taxation that has not been provided it would have an adverse effect on net assets per share of 51p (2002: 23p) and on fully diluted net assets per share of 41p (2002: 18p).

28 Called-up share capital

	Number of shares issued and fully paid		Nominal value of shares issued and fully paid	
	2003 Number	2002 Number	**2003 £000**	2002 £000
Ordinary shares of 10p each				
At the beginning of the year/period	**61,746,441**	78,855,975	**6,175**	7,886
Issued on exercise of share options	**1,365,562**	434,210	**136**	43
Shares purchased and cancelled	**–**	(17,543,744)	**–**	(1,754)
At end of the year/period	**63,112,003**	61,746,441	**6,311**	6,175

	Authorised	
	2003	2002
Ordinary shares of 10p each	**150,000,000**	150,000,000

310,000 shares have been issued since the year end.

The options to subscribe for new ordinary shares of 10p each under the share option schemes that were outstanding at 31 December 2003 are as follows:

	31 December 2003	
	Number of shares	**Subscription price**
Period within which options are exercisable:		
28 October 1997 to 28 October 2004	**208,526**	**131.4p**
21 October 1999 to 21 October 2006	**10,426**	**193.2p**
18 June 2000 to 18 June 2004	**104,200**	**226.4p**
18 June 2000 to 18 June 2007	**52,604**	**226.4p**
15 May 2001 to 15 May 2008	**549,000**	**279.5p**
22 May 2001 to 22 May 2008	**20,940**	**286.5p**
23 February 2002 to 23 February 2009	**428,950**	**191.5p**
22 February 2003 to 22 February 2010	**70,000**	**201.5p**
13 September 2003 to 13 September 2010	**265,000**	**211.5p**
	1,709,646	

Notes to the accounts

29 Reserves

	Share capital £000	Share premium account £000	Property revaluation reserve £000	Capital redemption reserve £000	Own shares £000	Profit and loss account £000	Total £000
Group							
As at 31 December 2002	6,175	162,752	74,006	4,289	–	22,781	270,003
Prior year adjustment – own shares	–	–	–	–	(220)	555	335
Revised balance as at 31 December 2002	6,175	162,752	74,006	4,289	(220)	23,336	270,338
Issue of share capital	136	2,822	–	–	–	–	2,958
Revaluation of investment properties and other fixed assets	–	–	491	–	–	–	491
Share of revaluation surplus of joint ventures and associates	–	–	80,870	–	–	–	80,870
Tax on revaluation surpluses realised in the year	–	–	–	–	–	(3,651)	(3,651)
Realisation of surplus on disposal of investment properties and dilution of interest in associates	–	–	(10,122)	–	–	10,122	–
Gain on deemed disposal	–	–	–	–	–	4,498	4,498
Credit in respect of LTIP charge	–	–	–	–	–	1,184	1,184
Purchase of own shares	–	–	–	–	(3,341)	–	(3,341)
Amortisation of cost of own shares	–	–	–	–	1,740	(1,740)	–
Profit retained in the year	–	–	–	–	–	13,779	13,779
As at 31 December 2003	**6,311**	**165,574**	**145,245**	**4,289**	**(1,821)**	**47,528**	**367,126**
Company							
As at 31 December 2002	6,175	162,812	–	4,289	–	44,242	217,518
Issue of share capital	136	2,822	–	–	–	–	2,958
Profit retained in the year	–	–	–	–	–	5,041	5,041
As at 31 December 2003	**6,311**	**165,634**	**–**	**4,289**	–	**49,283**	**225,517**

30 Net assets per share

	As at 31 December 2003 Net assets £000	Number of shares	Net assets per share
As per the balance sheet	**367,126**	**63,112,003**	
Own shares held		**(1,024,000)**	
Net assets per share	**367,126**	**62,088,003**	**591p**
Conversion of CULS (net of unamortised issue costs)	**24,404**	**12,670,912**	
Exercise of share options	**3,767**	**1,709,646**	
Capital allowances deferred tax provision	**3,449**		
Adjusted fully diluted	**398,746**	**76,468,561**	**521p**

	As at 31 December 2002 (restated) Net assets £000	Number of shares	Net assets per share
As per the balance sheet	270,338	61,746,441	
Own shares held		(70,000)	
Net assets per share	270,338	61,676,441	438p
Conversion of CULS (net of unamortised issue costs)	24,314	12,670,912	
Exercise of share options	6,901	3,160,408	
Capital allowances deferred tax provision	2,538		
Adjusted fully diluted	304,091	77,507,761	392p

Net assets per share are shareholders' funds divided by the number of shares held by shareholders at the year end. The shares held by the group's employee benefits trust (own shares held) are excluded from both net assets and the number of shares.

Adjusted fully diluted net assets per share includes the effect of those shares potentially issuable under the CULS or employee share option schemes. it excludes the capital allowances deferred tax provision.

31 Return on equity

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Total recognised gains and losses	**101,589**	37,072
Equity shareholders' funds	**270,003**	253,116
Return on equity	**37.6%**	14.6%

Return on equity is calculated as total recognised gains and losses divided by opening equity shareholders' funds, plus time-weighted additions to share capital (excluding share options) less reductions in share capital. Equity shareholders' funds for 2002 has been adjusted to take account of the shares purchased and cancelled on 26 April 2002.

Notes to the accounts

32 Valuations

The properties were valued at 31 December 2003, as follows:

	Valuer	Basis of valuation	£000
Group properties			
	DTZ Debenham Tie Leung	Open market value	4,640
	CB Richard Ellis Limited	Open market value	3,397
	Directors' valuation	Open market value	220
	King Sturge	Open market value	43,200
Total fixed property assets (as per balance sheet)			51,457
Other fixed assets	DTZ Debenham Tie Leung	Open market value	11,800
Total property assets			63,257
Properties held by joint ventures			
Xscape Milton Keynes Partnership	DTZ Debenham Tie Leung	Open market value	77,600
Auchinlea Partnership	Montagu Evans	Open market value	118,050
Xscape Castleford Partnership	DTZ Debenham Tie Leung	Open market value	64,000
Total property assets held by joint ventures			259,650

The independent property valuations, as at 31 December 2003, were performed by qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors; King Sturge, Chartered Surveyors; CB Richard Ellis Limited, Chartered Surveyors; and Montagu Evans, Chartered Surveyors. The properties were valued on the basis of market value, with the exception of 10 Lower Grosvenor Place, London SW1, which was appraised on the basis of existing use value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards.

33 Notes to the cash flow statement

(a) Net cash inflow from operating activities

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Group operating profit	**12,388**	5,163
(Profit)/loss on the sale of the trading and development properties	**(25)**	1,023
	12,363	6,186
Depreciation of other fixed assets	**425**	482
Amortisation of short leasehold properties	**203**	203
Amortisation of tenant incentives	**(144)**	308
Amortisation of goodwill	**1,162**	–
Profit on disposal of fixed assets	**(6)**	(6)
Decrease in trade debtors, other debtors and prepayments	**3,144**	8,708
Increase/(decrease) in trade creditors, other creditors, taxation and social security and accruals	**10,616**	(14,185)
Non-cash movement relating to LTIP charge	**1,184**	555
Net cash inflow from operating activities	**28,947**	2,251

33 Notes to the cash flow statement continued

(b) Reconciliation of net cash flow movement in net debt

	Year to 31 December 2003 £000	Period to 31 December 2002 £000
Increase/(decrease) in cash in the year	**316**	(4,408)
Cash (outflow)/inflow from increase in debt financing	**(15,222)**	345,740
Change in net debt resulting from cash flows	**(14,906)**	341,332
Net debt at beginning of the year	**(115,933)**	(457,265)
Net debt at end of the year	**(130,839)**	(115,933)

(c) Analysis of net debt

	At 31 December 2002 £000	Cash flows £000	At 31 December 2003 £000
Cash in hand and at bank	4,159	316	**4,475**
Debt due within one year	(3,450)	3,250	**(200)**
Debt due after one year	(116,642)	(18,472)	**(135,114)**
Total	(115,933)	(14,906)	**(130,839)**

34 Related party transactions

The Group's principal transactions with related parties as defined by FRS 8, "Related party transactions", are summarised below:

Joint ventures and associates

During 2003 the Group received management and performance fees totalling £6,454,000 from The Junction Limited Partnership (2002: £2,600,000). As at 31 December 2003 £2,871,000 was outstanding in respect of these fees.

During 2003 the Group received management fees from Auchinlea Partnership of £337,000 (2002: £120,000). As at 31 December 2003 there were no fees outstanding.

During 2003 the Group received management and performance fees totalling £18,225,000 from The Mall Limited Partnership (2002: £6,900,000). As at 31 December 2003 £11,712,000 was outstanding in respect of these fees.

During 2003 the Group received management fees totalling £3,568,000 from the X-Leisure Funds. As at 31 December 2003 £66,000 was outstanding in respect of these fees and deferred fees of £1,681,000 are also outstanding.

The Group received management fees from Xscape Milton Keynes Partnership of £185,000 (2002: £186,000) and Xscape Castleford Partnership of £180,000 (2002: £175,000) during 2003.

All the above transactions occurred at normal commercial rates.

Other related party transactions

During 2003 the Group was in two partnership arrangements with funds managed by Pricoa Property Investment Management Limited of which Martin Barber was non-executive chairman until March 2003.

During 2003 Cine UK Limited leased five of the Group's properties on normal commercial terms. Viscount Chandos is a director and shareholder of Cine UK Limited. Martin Barber is a shareholder of Cine UK.

Notes to the accounts

35 Post balance sheet events

In March 2004 the Auchinlea Partnership, in which the Group has a 50% share, exchanged contracts to sell the leasehold interest in the Glasgow Fort Shopping Park to the Hercules Unit Trust for £194.7 million.

36 Subsidiary joint venture and associated undertakings at 31 December 2003

Principal subsidiaries, associated companies and joint ventures	Nature of property business	Group effective share of business
Capital & Regional Property Management Limited	Management	100%
Capital & Regional Investments Limited	Investment and management	100%
Capital & Regional Shopping Centres Limited	Investment and management	100%
Snozone Limited	Trading	100%
The Mall Limited Partnership	Investment	34.77%
The Junction Limited Partnership	Investment	28.37%
X-Leisure Fund I	Investment	13.29%
X-Leisure Fund IIa	Investment	5.72%
X-Leisure Fund IIb	Investment	7.09%
The Auchinlea Partnership	Investment	50%
Xscape Castleford Partnership	Investment and management	66.7%
Xscape Milton Keynes Partnership	Investment and management	50%
Morrison Merlin Limited	Trading	50%

The subsidiary and joint ventures companies are incorporated in, and operate in, Great Britain. Investments in joint ventures and associates are dealt with in note 19.

The Company has taken advantage of Section 231(5) and (6) of the Companies Act 1985 in not listing all of its subsidiary and joint venture undertakings. All of the above principal subsidiaries and joint ventures have been consolidated in the Group financial statements. All voting rights are in line with effective share of business.

Additional information

Property under management

	31 December 2003 £m	31 December 2002 £m
Investment properties	**52**	56
Trading properties	**8**	8
Mall Fund	**1,243**	724
Junction Fund	**757**	536
X-Leisure Funds	**501**	–
Other joint ventures	**332**	133
Other properties under management	**–**	40
	2,893	1,497

Fund portfolio information

at 31 December 2003

Fund	Footnote	Mall Fund	Junction Fund	X-Leisure Funds[2]
Number of core properties		15	16	19
Number of tenants		1,294	226	181
Square feet (000)		4,604	3,331	2,825
Properties at open market value	1	£1,243m	£757m	£501m
Initial yield		6.39%	5.03%	6.48%
Equivalent yield		6.99%	6.37%	7.27%
Vacancy rate		2.5%	7.1%	2.0%
Net rental income (per annum)		£82.3m	£38.4m	£34.2m
Estimated rental value (per annum)		£97.8m	£47.5m	£37.5m
Rental increase (ERV)		4.9%	8.8%	2.9%
Reversionary		7.7%	13%	5.56%
Loan to value ratio		44%	49%	63%
Underlying valuation change since 31 December 2002		12.5%	12.2%	1.8%
Property level return		21.7%	17.7%	8.1%
Geared return		33.5%	28.2%	10.9%
Unit price (£1.00 at inception)		£1.4290	£1.3674	n/a
C&R share		34.77%	28.37%	10.77%

1 Properties at open market value include tenant incentives which are transferred to current assets for accounting purposes.

2 This is the position of the new X-Leisure Fund based on values at 31 December 2003.

Shareholders' information

2004 financial calendar

Final dividend record date	23 April 2004
Annual General Meeting	11 June 2004
Final dividend payment	18 June 2004
Interim results	September 2004
Interim dividend	October/November 2004
2004 preliminary results announcement	March/April 2005

Final dividend 2003 timetable

Record date	23 April 2004
Last day to receive DRIP mandates	4 June 2004
Dividend warrants posted	17 June 2004
Payment date/shares purchased	18 June 2004
Certificates/purchase statements dispatched	1 July 2004
CREST accounts credited	2 July 2004

Five-year review

for the periods ended 25 December 1999 to 31 December 2003

	2003	2002	2001	2000	1999
Number of shares in issue (million)	**63.112**	61.746	78.856	88.735	98.266
Diluted number of shares in issue (million)	**76.469**	74.347	91.268	101.147	110.678
Adjusted fully diluted net assets per share	**521p**	392p	336p	350p	370p
Adjusted fully diluted net assets per share growth	**32.9%**	15.5%	(4.1)%	(5.4)%	16.9%
Capital employed	**367,126**	270,338	287,241	333,889	394,089
Borrowings	**110,087**	95,136	440,894	590,449	577,891
Cash at bank	**4,475**	4,159	8,567	6,091	7,388
Net bank debt	**105,612**	90,977	432,327	584,358	570,503
Convertible Unsecured Subordinated Loan Stock	**24,406**	24,314	24,223	24,132	24,041
Net debt	**130,018**	115,291	456,550	608,490	594,544
Net debt/capital employed*	**27.0%**	30.9%	138.8%	163.2%	136.4%
Profit on ordinary activities before taxation	**26,347**	2,073	11,363	14,168	12,838
Earnings per share	**31.4p**	1.3p	24.0p	9.7p	9.7p
Dividend per share	**9.0p**	7.0p	6.0p	5.5p	5.0p

* Assuming conversion of the Convertible Unsecured Subordinated Loan Stock to equity

Glossary of terms

Adjusted fully diluted NAV per share includes the effect of those shares potentially issuable under the CULS or employee share options. It excludes the capital allowances deferred tax provision.

Capital allowances deferred tax provision In accordance with FRS 19, full provision has been made for deferred tax arising on the benefit of capital allowances claimed to date. In the Group's experience liabilities in respect of capital allowances provided are unlikely to crystallise in practice and are therefore excluded when arriving at adjusted fully diluted NAV per share.

Contingent tax liability is the unprovided further taxation which might become payable if the Group's investments and properties were sold at their balance sheet values net of any tax losses which have not been recognised in the balance sheet.

CULS is the Convertible Subordinated Unsecured Loan Stock.

Earnings per share (EPS) is the profit on ordinary activities after taxation divided by the weighted average number of shares in issue during the period excluding own shares held.

Estimated rental value (ERV) is the Group's external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

Equivalent yield is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the Group's external valuers) assume rent received annually in arrears and on gross values including prospective purchasers' cost.

Gearing is the Group's net debt as a percentage of net assets, adjusted for the conversion of the CULS into equity. See-through gearing includes our share of non-recourse net debt in the associates and joint ventures.

Initial yield is the annualised net rents generated by the portfolio, expressed as a percentage of the portfolio valuation, excluding development properties.

IPD is Investment Property Databank Ltd, a company that produces an independent benchmark of property returns.

Net assets per share (NAV) are shareholders' funds divided by the number of shares held by shareholders at the period end, excluding own shares held.

Open market value is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers). In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agent and legal fees.

Passing rent is the gross rent, less any ground rent payable under head leases.

Return on equity is the total return, including revaluation surplus, divided by opening equity plus time-weighted additions to share capital, excluding share options exercised, less reductions in share capital.

Reversion is the estimated increase in rent at review where the gross rent is below the estimated rental value.

Reversionary yield is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Total return is the Group's total recognised gains and losses for the year as set out in the statement of total recognised gains and losses (STRGL).

Total shareholder return is the growth in price per share plus dividends per share.

Vacancy rate is the estimated rental value of vacant properties expressed as a percentage of the total estimated rental value of the portfolio, excluding development properties.

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