Capital & Regional plc
Interim report 2004

Contents

Highlights

- Property under management increased from £2.9 billion to £3.2 billion over the six month period. Further acquisitions since 30 June 2004 have now increased the total to £3.7 billion.
- Return on equity was 15.6% including revaluation surplus for the six month period (June 2003: 13.6%).
- Interim dividend increased by 25% to 5p (June 2003: 4p).
- Adjusted fully diluted Net Asset Value per share increased by 14.4% to 596p over the six month period (December 2003: 521p).
- Profit before tax £17.4 million (June 2003: £8.3 million).

Track record

	NAV per share		Dividend per share	
Dec 1996	220p	+19%	3.0p	+20%
Dec 1997	272p	+24%	3.5p	+17%
Dec 1998	317p	+16%	4.25p	+21%
Dec 1999	370p	+17%	5.0p	+18%
Dec 2000	350p	–5%	5.5p	+10%
Dec 2001	336p	–4%	6.0p	+11%
Dec 2002	392p	+17%	7.0p	+17%
Dec 2003	521p	+33%	9.0p	+29%
June 2004*	596p	+14%	5.0p	+25%

*six months only

Chairman's and Chief Executive's statement

The first six months of 2004 have been very strong. Our funds are expanding, our business model is working and the markets in which we are operating have remained good. The total property portfolio under management grew from £2.9 billion to £3.2 billion at 30 June and has since reached £3.7 billion.

Return on equity for the six month period was 15.6% (2003: 13.6%). After the interim dividend the adjusted fully diluted net asset per share rose by 14.4% from 521p to 596p. This balance sheet number does not reflect the value of our asset management business which is showing increasingly strong returns and is clearly very valuable.

The profit before tax for the six months was £17.4 million (2003: £8.3 million). We are increasing the interim dividend by 25% from 4p to 5p a share.

The Funds

The Mall Fund's portfolio has grown from £1.4 billion last December to nearly £2 billion at the time of writing, making it one of the largest owners of covered shopping centres in the UK. It now operates nearly 7 million sq ft of retail space from 21 centres.

The first six months' return was 9.2% at the property level (ungeared) and 11.7% at the fund level (geared). The annualised geared fund return since inception in March 2002 is 28.4%.

Three shopping centres were acquired during the first half: the East Gate Centre in Gloucester for £40 million, the St. George's Centre in Preston for £102.5 million and the Galleries in Bristol for £123 million. A further three centres have already been acquired for £378.5 million in the second half: the Blackburn Centre in Blackburn, the Cleveland Centre in Middlesbrough and the Chequers Centre in Maidstone.

The Mall Fund's equity base was enhanced in June by the contribution of The Galleries, Bristol for £123 million. Since then a further £68.4 million has been raised from 17 new cash investors and has been fully utilised by the recent acquisitions. There are now 26 investors in the fund and Capital & Regional's interest is 27.9%.

The Junction Fund's portfolio has increased from £757 million last December to £844 million at June 2004. There has been one acquisition, the Great Western Retail Park in Glasgow for £53 million; and one disposal, the Cockhedge Centre in Warrington for £43 million.

The first six months' performance was 9.6% at the property level (ungeared) and 13.8% at the fund level (geared). This has been driven by yield shift together with some significant asset management initiatives. The annualised geared fund return since inception in January 2002 is 25.0%.

The fund's development programme is moving ahead satisfactorily, contributing to 20% of the first six months return. In all, it has planning permission for 485,000 sq ft, adding a net 315,000 sq ft to the portfolio. The fund has identified opportunities to develop approximately a further 500,000 sq ft and additionally to undertake major reconfigurations and redevelopment of existing space totalling 700,000 sq ft.

The consented space has been progressed as follows:

- Aylesbury – Phase I is fully let and due to complete in September 2004. Phases II and III are 50% pre-let by square footage with a start on site planned for October 2004. Phases I and II represent 183,000 sq ft out of a total consented sq footage of 199,000 sq ft.
- Bristol – The 100,000 sq ft Phase V extension started on site in June 2004 anchored by an 85,000 sq ft pre-let to Big W.
- Hull – Planning consent was obtained for a further Phase III 130,000 sq ft extension during the first six months. Phase IIIa of 57,000 sq ft (82% pre-let by square footage) is due to start on site in September 2004.

There are four investors in the fund and Capital & Regional's interest is 28.4%.

The X-Leisure Fund was created in March this year, gathering the three ex-MWB leisure funds under one umbrella. The property manager is Capital & Regional and the fund manager is Hermes, both operating under 15 year contracts. This structure frees us to implement a longer term strategy with a common vision, and to actively manage the properties in the portfolio.

We have already started to implement the business plan. First, a small park in Dundee was sold. Since 30 June there has been a further small disposal in Guildford, and two acquisitions:

- In July we acquired the 25% minority interest in the O2 centre for £27 million.
- In August we acquired the retail and leisure property at Brighton Marina for £65 million.

The X-Leisure Fund's portfolio now stands at £581 million. There are nine investors in the fund and Capital & Regional's interest is 10.77%.

Joint Ventures and wholly owned properties

As at 30 June 2004, approximately 20% of the Group's property exposure was held outside the funds in joint ventures and wholly owned properties. Key events since our last report to you are:

Glasgow Fort This out of town shopping park investment was sold to the Hercules Unit Trust. Including amounts previously taken through revaluation reserves, our share of the profit now totals £26 million. The arrangements with Hercules provides further incentives dependent upon leasing of the first phase and profit sharing in respect of further phases.

The Swansea Retail Park Leases have been exchanged on 75% of the floor space to tenants including Next, TK Maxx, B&Q and Boots, with a further 11% in solicitors' hands. There are also rental guarantees in place for a further 10% of the floor space. Completion of the development will take place this month.

Cardiff Retail Park The Group has entered into an "Option to Purchase" this 32 acre site, which already has the benefit of a planning consent for a 100,000 sq ft food store and 300,000 sq ft of bulky goods floor space. Discussions are under way to widen the existing planning consent and negotiations are taking place with anchor tenants.

Xscape The Xscape at Milton Keynes is fully let and has performed well in the first half. It maintained strong trading, footfall and dwell time levels stimulated by focused seasonal marketing and promotional events. The Group cash flow will benefit from this when the rent reviews due in 2005 are agreed.

Xscape Castleford, near Leeds, is establishing itself as a very successful leisure/retail destination. Since the year end we have leased a nightclub, two new bars, a restaurant and a family/children attraction. It won the award for the best regeneration scheme in the Leisure Property Awards and has been nominated as a best newcomer for tourism in the White Rose Awards and the best new attraction in the Group Leisure Awards.

This month we are breaking ground on the third Xscape, in Braehead near Glasgow. We are working in partnership with Capital Shopping Centres and financing arrangements and lettings are proceeding satisfactorily.

Great Northern, Manchester We are excited by the prospect of repositioning this property and expect to make announcements fairly shortly on significant progress.

Snozone, our snow slope business Our operation at Milton Keynes has traded well and is delivering increased profits. Castleford, near Leeds, has made an excellent start, is also profitable and is exceeding expectations.

Financials

Funding On a "see through" basis, including the Group share of all fund and joint venture property investments, the Group has property assets of £956 million and net debt of £507 million. Interest rates are fixed on £365 million of the debt for periods of between one and four years, and gearing is 114%.

Performance fees We did not include any accrual for performance fees for the first half year in 2003; but this year, with 2002 and 2003's strong performance contributing to the calculation of the 2004 fees under the formula agreed with the funds, we have made a prudent accrual of £11.2 million during the first half year. This amount is consistent with the amount provided in the fund accounts and deducted from the distributions.

Jersey Unit Trusts During the first half the Mall and Junction Funds became Jersey Unit Trusts in order to enhance liquidity for investors. Since 30 June, the X-Leisure Fund and the two Xscape partnerships have done the same. Capital & Regional now holds its interests in these unit trusts via intermediary holding companies resident in Jersey.

REITs

We are hopeful that the Government will announce in November that it will introduce a tax transparent vehicle for property. It has had the benefit of extensive representations from the operational side of the industry, as well as from investors, as to what is needed to create a successful market. If the right vehicle is made available, it should offer significant benefits not just to the property industry but also to occupiers, whose efficiency should ultimately be increased by lower costs and greater flexibility. The directors believe that Capital & Regional, with its strong sectoral focus and experience in the US REIT market, is well positioned to be a leader in the new market.

Chairman's and Chief Executive's statement

Outlook

During the first half of 2004 we continued to see significant increases in the value of retail investment properties in general. Our portfolios have also benefited from active management and have been well positioned within their sectors. Both the Mall and Junction Funds have outperformed their benchmark indices. The impetus has continued strongly in the second half, and the outlook for the year is good.

In the longer term, we are confident that our business model and management approach will continue to deliver outperformance both to investors in our funds and to shareholders in Capital & Regional.

Tom Chandos
Chairman

Martin Barber
Chief Executive

Independent review report to Capital & Regional plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2004 which comprises the consolidated profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the consolidated balance sheet, the summary cash flow statement and its related notes and related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting polices and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

Deloitte & Touche LLP
Chartered Accountants
London
15 September 2004

Consolidated profit and loss account

	Notes	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Turnover: group income and share of joint ventures' turnover		**28,494**	13,318	44,010
Less: share of joint ventures' turnover		**(3,328)**	(1,342)	(4,554)
Group turnover	2	**25,166**	11,976	39,456
Cost of sales		**(3,935)**	(2,762)	(6,445)
Gross profit		**21,231**	9,214	33,011
Profit on sale of trading and development properties		**40**	–	25
Administrative expenses		**(13,749)**	(8,662)	(20,650)
Group operating profit		**7,522**	552	12,386
Share of operating profit in joint ventures and associates	8a	**15,364**	20,263	35,863
Total operating profit		**22,886**	20,815	48,249
Profit on sale of investment properties		**185**	1,398	5,242
Share of profit on sale of investment properties in joint ventures and associates		**9,688**	497	2,385
Profit on ordinary activities before interest		**32,759**	22,710	55,876
Interest receivable and similar income		**709**	503	1,142
Interest payable and similar charges	3			
– Group		**(3,278)**	(3,672)	(7,287)
– Share of associates		**(9,664)**	(10,060)	(19,789)
– Share of joint ventures		**(3,089)**	(1,220)	(3,595)
		(16,031)	(14,952)	(30,671)
Profit on ordinary activities before taxation	2	**17,437**	8,261	26,347
Taxation on profit on ordinary activities	4	**(4,495)**	(2,691)	(6,966)
Profit on ordinary activities after taxation		**12,942**	5,570	19,381
Equity dividends paid and payable		**(3,117)**	(2,505)	(5,602)
Profit retained in the period	10	**9,825**	3,065	13,779
Earnings per share	5	**20.9p**	9.0p	31.4p
Earnings per share – diluted	5	**18.1p**	8.2p	27.3p

Consolidated balance sheet

	Notes	(Unaudited) As at 30 June 2004 £000	(Unaudited) Restated as at 30 June 2003 £000	(Audited) As at 31 December 2003 £000
Fixed assets				
Intangible assets	6	**12,754**	16,820	14,540
Investment property assets	7	**60,547**	35,074	51,457
Other fixed assets		**12,533**	12,676	12,282
		85,834	64,570	78,279
Investment in joint ventures:				
– Share of gross assets		**152,631**	151,699	183,769
– Share of gross liabilities		**(112,752)**	(106,628)	(127,277)
	8c	**39,879**	45,071	56,492
Investment in associates	8b	**418,311**	324,343	372,676
		544,024	433,984	507,447
Current assets				
Property assets	7	**8,184**	7,756	7,941
Debtors		**35,051**	27,050	24,476
Cash at bank and in hand		**4,390**	2,348	4,475
		47,625	37,154	36,892
Creditors: amounts falling due within one year		**(35,555)**	(22,818)	(37,232)
Net current assets/(liabilities)		**12,070**	14,336	(340)
Total assets less current liabilities		**556,094**	448,320	507,107
Creditors: amounts falling due after more than one year		**(108,819)**	(115,861)	(113,283)
Convertible Subordinated Unsecured Loan Stock		**(24,543)**	(24,451)	(24,497)
Provision for liabilities and charges		**(2,434)**	(2,931)	(2,201)
Net assets	2	**420,298**	305,077	367,126
Capital and reserves				
Called up share capital	10	**6,381**	6,219	6,311
Share premium account	10	**166,941**	163,534	165,574
Revaluation reserve	10	**175,042**	102,595	145,245
Other reserves	10	**164**	4,069	2,468
Profit and loss account	10	**71,770**	28,660	47,528
Equity shareholders' funds		**420,298**	305,077	367,126
Net assets per share	9	**677p**	495p	591p
Net assets per share – adjusted fully diluted	9	**596p**	439p	521p

Statement of total recognised gains and losses

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) Restated 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Profit before tax	**17,437**	8,261	26,347
Movements in revaluation reserve			
– Revaluation on investment properties	**7,142**	154	1,111
– Revaluation of other fixed assets	**240**	(660)	(620)
– Revaluation of properties held in joint ventures and associates	**42,502**	31,644	80,870
(Loss)/gain on deemed disposals	**–**	(344)	4,498
Total gains and losses before tax	**67,321**	39,055	112,206
Tax shown in profit and loss account	**(4,495)**	(2,691)	(6,966)
Tax on revaluation surplus realised	**(5,677)**	54	(3,651)
Total tax charge	**(10,172)**	(2,637)	(10,617)
Total recognised gains and losses for the period	**57,149**	36,418	101,589
Return on equity for the period	**15.6%**	13.5%	37.6%

See note 1 for details of the restatement.

Reconciliation of movements in shareholders' funds

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) Restated 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Profit on ordinary activities after taxation	**12,942**	5,570	19,381
Equity dividends paid and payable	**(3,117)**	(2,505)	(5,602)
Profit retained in the period	**9,825**	3,065	13,779
Share capital and share premium issued in period (net of expenses)	**1,437**	826	2,958
Other recognised gains and losses relating to the period	**44,207**	30,848	82,208
Purchase of own shares	**(3,285)**	–	(3,341)
LTIP credit in respect of profit and loss charge	**988**	–	1,184
Net increase in shareholders' funds	**53,172**	34,739	96,788
Opening shareholders' funds	**367,126**	270,338	270,338
Closing shareholders' funds	**420,298**	305,077	367,126

Summary cash flow statement

	Notes	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Net cash (outflow)/inflow from operating activities	11	**(8,085)**	1,797	28,947
Distributions received from joint ventures		**23,596**	350	350
Distributions received from associates		**6,295**	8,116	14,344
Returns on investments and servicing of finance		**(4,080)**	(3,652)	(7,920)
Taxation		**(6,349)**	(2,660)	(5,496)
Capital expenditure and financial investment		**14,626**	19,677	8,442
Acquisitions, disposals and exceptional items		**(15,603)**	(44,158)	(48,208)
Equity dividends paid		**(3,113)**	(2,482)	(4,985)
Cash inflow/(outflow) before financing		**7,287**	(23,012)	(14,526)
Financing:				
Issue of ordinary share capital		**1,437**	826	2,958
Purchase of own shares		**(3,473)**	–	(3,338)
Cash (outflow)/inflow from debt financing		**(5,336)**	20,375	15,222
(Decrease)/increase in cash in the period		**(85)**	(1,811)	316

Reconciliation of net cash flow to movement in net debt

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
(Decrease)/increse in cash in the period	**(85)**	(1,811)	316
Cash inflow/(outflow) from debt financing	**5,336**	(20,375)	(15,222)
Change in net debt resulting from cash flows	**5,251**	(22,186)	(14,906)
Net debt at beginning of period	**(130,839)**	(115,933)	(115,933)
Net debt at end of period	**(125,588)**	(138,119)	(130,839)

Analysis of net debt

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Cash at bank	**4,390**	2,348	4,475
Debt due within one year	**(1,700)**	(200)	(200)
Debt due after one year	**(128,278)**	(140,267)	(135,114)
Total	**(125,588)**	(138,119)	(130,839)

Notes to the interim results

1 Accounting policies

The interim financial information has been prepared on the basis of the accounting policies set out in the annual report for the period ended 31 December 2003.

The comparative figures represent the Group's results and cash flows for the period from 1 January 2003 to 30 June 2003 and for the year from 1 January 2003 to 31 December 2003. The comparatives for the period to 30 June 2003 have been restated to reflect our change in accounting policy for tenant incentives and our change in accounting policy for own shares. There has been no effect on the profit and loss account for the period to 30 June 2003. The effect on the 30 June 2003 balance sheet was to reduce net assets and shareholders' funds by £27,000.

The comparative figures for the year ended 31 December 2003 do not constitute statutory accounts but have been extracted from the statutory accounts for that year, which have been filed with the Registrar of Companies. The auditors' report in respect of the year ended 31 December 2003 is unqualified and did not contain a statement under Companies Act 1985 sections 237 (2) or (3).

2 Segmental analysis

Turnover, profit on ordinary activities before taxation and operations arise in the UK.

	Asset management £000	Snow slope business £000	Share of joint ventures and associates £000	Wholly owned properties £000	**(Unaudited) Total 6 months to 30 June 2004 £000**	(Unaudited) Total 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Asset management fees	8,739	–	–	–	**8,739**	7,130	15,757
Performance fees	11,155	–	–	–	**11,155**	–	13,292
Snozone income	–	4,444	–	–	**4,444**	2,096	5,546
Rental and other income	–	–	–	828	**828**	2,750	4,861
Group turnover	19,894	4,444	–	828	**25,166**	11,976	39,456
Share of joint ventures and associates operating profit	–	–	15,364	–	**15,364**	20,263	35,863
Direct expenses	–	(3,695)	–	(240)	**(3,935)**	(2,762)	(6,445)
Amortisation of goodwill	(575)	–	–	–	**(575)**	(581)	(1,162)
Net interest payable:							
– Non and limited recourse	–	–	(12,198)	–	**(12,198)**	(10,921)	(22,545)
– Own borrowings (net)	–	–	(2,316)	(808)	**(3,124)**	(3,528)	(6,984)
Contribution	19,319	749	850	(220)	**20,698**	14,447	38,183
Indirect expenses					**(13,174)**	(8,081)	(19,488)
Profit on disposals (net)					**9,913**	1,895	7,652
Profit before taxation					**17,437**	8,261	26,347
Net assets	25,216	698	331,262	63,122	**420,298**	305,077	367,126

No performance fee accrual was included for the first half year in 2003; but this year with 2002 and 2003's strong performance contributing to the calculation of the 2004 fees under the formula agreed with the funds, a prudent accrual of £11.2 million has been made during the first half year.

The performance fee income reflected is consistent with the cost of performance fees in the Mall LP and Junction LP accounting shown in note 8b.

The indirect expenses are not split between operations because the directors believe it is not practical.

3 Interest payable and similar charges

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Bank loans and overdrafts	**3,462**	2,884	6,479
Other loans	**877**	877	1,754
	4,339	3,761	8,233
Capitalised in period	**(1,061)**	(89)	(946)
	3,278	3,672	7,287
Share of associates	**9,664**	10,060	19,789
Share of joint ventures	**3,089**	1,220	3,595
	16,031	14,952	30,671

4 Taxation

The taxation charge for the period is based on an estimate of the likely effective tax rate for the current year.

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Current tax			
UK corporation tax (at 30%)	**4,780**	2,131	6,330
Adjustment in respect of prior years	**(518)**	23	832
Share of joint ventures tax	**–**	3	–
Total current tax	**4,262**	2,157	7,162
Deferred tax			
Origination and reversal of timing differences	**233**	534	(196)
Total taxation	**4,495**	2,691	6,966
Unprovided deferred tax	**2,952**	22,701	31,804

During the six month period, a significant part of the Group's property interests has been transferred offshore. In addition the Auchinlea partnership has sold its interest in Glasgow Fort. The Group has been advised that no capital gains tax liability arises on these transactions, although the relevant computations have yet to be submitted or agreed. The amount disclosed as an unprovided Capital Gains Tax liability in the accounts at 31 December 2003 in relation to these assets was £28.6 million.

Notes to the interim results

5 Earnings per share

	Earnings £000	Number of shares	Earnings per share
Six months to 30 June 2004 (Unaudited)			
Basic	**12,942**	**61,830,522**	**20.9p**
Exercise of share options	**–**	**694,139**	
Conversion of Convertible Unsecured Loan Stock	**669**	**12,670,912**	
Diluted	**13,611**	**75,195,573**	**18.1p**
Six months to 30 June 2003 (Unaudited)			
Basic	5,570	61,907,166	9.0p
Exercise of share options	–	419,461	
Conversion of Convertible Unsecured Loan Stock	598	12,670,912	
Diluted	6,168	74,997,539	8.2p
Year to 31 December 2003 (Audited)			
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

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

The Convertible Unsecured Loan Stock charge added back to give the diluted earnings figures is net of tax at the effective tax rate for the year.

6 Intangible assets

	Goodwill £000
Cost	
At 1 January 2004	15,702
Reassessment of fair value	(1,211)
At 30 June 2004	**14,491**
Amortisation	
At 1 January 2004	1,162
Charge for the period	575
At 30 June 2004	**1,737**
Net book value	
At 30 June 2004	**12,754**
At 1 January 2004	14,540

In the period the Group received £1,211,000 of deferred fees from the X-Leisure fund. These were attributed a fair value of £nil at the time of acquisition.

7 Wholly owned property assets

	Other fixed property assets £000	Investment property assets £000	Trading property assets £000	Total property assets £000
Cost or valuation				
As at 1 January 2004	11,800	51,457	7,941	71,198
Refurbishment and development expenditure	–	14,648	243	14,891
Amortisation of short leasehold properties	(40)	(134)	–	(174)
Disposals	–	(12,566)	–	(12,566)
Revaluation	240	7,142	–	7,382
As at 30 June 2004	**12,000**	**60,547**	**8,184**	**80,731**

The property assets were valued at 30 June 2004, as follows:		£000
DTZ Debenham Tie Leung	Open Market Value	16,450
King Sturge	Open Market Value	51,440
CBRE Limited	Open Market Value	3,236
Directors	Open Market Value	1,421
		72,547

The Independent property valuations as at 30 June 2004, were performed by qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors and CBRE Limited, Chartered Surveyors and King Sturge, 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.

Notes to the interim results

8 Associates and joint ventures

8a Share of operating profit

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Associates	**13,182**	19,250	32,256
Joint ventures	**2,182**	1,013	3,607
	15,364	20,263	35,863

8b Associates

	The Mall LP £000	The Junction LP £000	X-Leisure LPs £000	(Unaudited) Total to 30 June 2004 £000	(Unaudited) Restated Total to 30 June 2003 £000
Profit and loss account (100%)					
Turnover	50,589	16,614	17,330	**84,533**	74,672
Property expenses	(7,721)	(947)	(1,614)	**(10,282)**	(9,210)
Net rental income	42,868	15,667	15,716	**74,251**	65,462
Fund and property management expenses	(17,304)	(5,704)	(1,459)	**(24,467)**	(6,212)
Administrative expenses	(516)	(391)	(437)	**(1,344)**	(1,737)
Share of joint venture's operating profit	–	1,798	–	**1,798**	1,484
Operating profit	25,048	11,370	13,820	**50,238**	58,997
Profit on disposal of investment properties	–	57	–	**57**	1,799
Net interest payable	(15,648)	(9,914)	(9,933)	**(35,495)**	(33,005)
Profit before and after tax	9,400	1,513	3,887	**14,800**	27,791
Balance sheet (100%)					
Investment properties and joint ventures	1,582,740	834,252	500,665	**2,917,657**	2,212,410
Current assets	67,733	45,872	25,127	**138,732**	109,347
Current liabilities	(73,828)	(19,868)	(126,947)	**(220,643)**	(115,852)
Borrowing due in more than one year	(684,393)	(395,971)	(212,187)	**(1,292,551)**	(1,212,143)
Net assets (100%)	892,252	464,285	186,658	**1,543,195**	993,762
C&R interest at period end	29.90%	28.37%	10.77%		
Group share of					
Operating profit	8,468	3,226	1,488	**13,182**	19,250
Profit on disposal of investment properties	–	16	–	**16**	497
Net interest payable	(5,290)	(2,813)	(1,070)	**(9,173)**	(9,724)
Profit for the period	3,178	429	418	**4,025**	10,023
Revaluation for the period	24,176	15,713	275	**40,164**	22,993
Investment properties and joint ventures	473,239	236,677	53,922	**763,838**	693,367
Current assets	20,252	13,014	2,706	**35,972**	33,979,
Current liabilities	(22,073)	(5,636)	(13,672)	**(41,381)**	(35,601)
Borrowing due in more than one year	(204,634)	(112,337)	(22,853)	**(339,824)**	(366,980)
Associate net assets	266,784	131,718	20,103	**418,605**	324,765
Unrealised profit on sale of property to associate	(294)	–	–	**(294)**	(422)
Group share of associate net assets	266,490	131,718	20,103	**418,311**	324,343

8 Associates and joint ventures continued

8c Joint ventures

	Xscape Milton Keynes Partnership £000	Xscape Castleford Partnership £000	Auchinlea Partnership £000
Profit and loss account (100%)			
Turnover	1,994	1,102	283
Property expenses	(272)	(583)	(376)
Net rental income	1,722	519	(93)
Fund and property management expenses	(50)	(50)	–
Administrative expenses	(14)	(16)	–
Operating profit/(loss)	1,658	453	(93)
Profit on disposal of investment properties	–	–	19,343
Net Interest payable	(1,607)	(1,514)	(652)
Profit/(loss) before tax	51	(1,061)	18,598
Taxation and minority interests	–	–	–
Profit/(loss) after tax	51	(1,061)	18,598
Balance sheet (100%)			
Investment properties	78,885	61,378	–
Current property assets	–	–	–
Current assets	3,918	5,633	55,058
Current liabilities	(2,692)	(4,506)	(41,343)
Borrowing due in more than one year	(46,800)	(47,315)	–
Net assets (100%)	33,311	15,190	13,715
C&R Interest at period end	50.0%	66.7%	50.0%
Group share of			
Turnover	997	718	141
Operating profit/(loss)	829	302	(46)
Profit on disposal of investment properties	–	–	9,672
Net interest payable	(804)	(1,009)	(327)
Profit/(loss) before tax	25	(707)	9,299
Taxation and minority interests	–	–	–
Profit/(loss) after tax	25	(707)	9,299
Revaluation surplus for the period	1,348	990	–
Investment properties	39,443	40,939	–
Current property assets	–	–	–
Current assets	1,959	3,757	27,529
Current liabilities	(1,451)	(3,011)	(20,672)
Borrowing due in more than one year	(23,400)	(31,559)	–
Joint venture net assets	16,551	10,126	6,857

Notes to the interim results

8 Associates and joint ventures continued

8c Joint ventures continued

	Morrison Merlin £000	Others £000	(Unaudited) Total to 30 June 2004 £000	(Unaudited) Restated Total to 30 June 2003 £000
Profit and loss account (100%)				
Turnover	2,909	–	**6,288**	2,684
Property expenses	(454)	–	**(1,685)**	(15)
Net rental income	2,455	–	**4,603**	2,669
Fund and property management expenses	–	–	**(100)**	(50)
Administrative expenses	(20)	(241)	**(291)**	(586)
Operating profit/(loss)	2,435	(241)	**4,212**	2,033
Profit on disposal of investment properties	–	–	**19,343**	–
Net interest (payable)/receivable	(1,787)	15	**(5,545)**	(2,394)
Profit/(loss) before tax	648	(226)	**18,010**	(361)
Taxation and minority interests	–	(1,400)	**(1,400)**	(9)
Profit/(loss) after tax	648	(1,626)	**16,610**	(370)
Balance sheet (100%)				
Investment properties	–	–	**140,263**	202,808
Current property assets	72,500	–	**72,500**	72,500
Current assets	4,012	1,292	**69,913**	13,889
Current liabilities	(2,974)	(291)	**(51,806)**	(12,329)
Borrowing due in more than one year	(62,500)	–	**(156,615)**	(177,825)
Net assets (100%)	11,038	1,001	**74,255**	99,043
C&R Interest at period end	50%			
Group share of				
Turnover	1,455	–	**3,311**	1,342
Operating profit/(loss)	1,218	(121)	**2,182**	1,013
Profit on disposal of investment properties	–	–	**9,672**	–
Net interest (payable)/receivable	(894)	8	**(3,026)**	(1,198)
Profit/(loss) before tax	324	(113)	**8,828**	(185)
Taxation and minority interests	–	(700)	**(700)**	(3)
Profit/(loss) after tax	324	(813)	**8,128**	(188)
Revaluation for the period	–	–	**2,338**	8,651
Investment properties	–	–	**80,382**	108,199
Current property assets	36,250	–	**36,250**	36,250
Current assets	2,006	748	**35,999**	7,250
Current liabilities	(1,309)	(100)	**(26,543)**	(12,758)
Borrowing due in more than one year	(31,250)	–	**(86,209)**	(93,870)
Joint venture net assets	5,697	648	**39,879**	45,071

9 Net assets per share

	Net assets £000	Number of shares	Net assets per share
As at 30 June 2004 (Unaudited)			
As per the balance sheet	**420,298**	**63,810,345**	
Own shares held	**–**	**(1,688,411)**	
Net assets per share	**420,298**	**62,121,934**	**677p**
Conversion of CULS (net of unamortised issue costs)	**24,449**	**12,670,912**	
Exercise of share options	**2,329**	**1,011,304**	
Capital allowances deferred tax provision	**4,910**	**–**	
Adjusted fully diluted	**451,986**	**75,804,150**	**596p**
As at 30 June 2003 (Restated, Unaudited)			
As per the balance sheet	305,077	62,189,911	
Own shares held	–	(524,000)	
Net assets per share	305,077	61,665,911	495p
Conversion of CULS (net of unamortised issue costs)	24,359	12,670,912	
Exercise of share options	6,004	2,681,738	
Capital allowances deferred tax provision	2,931	–	
Adjusted fully diluted	338,371	77,018,561	439p
As at 31 December 2003 (Audited)			
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

10 Reserves

	Share capital £000	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Own shares £000	Profit and loss account £000	Total £000
As at 31 December 2003	6,311	165,574	145,245	4,289	(1,821)	47,528	367,126
Issue of share capital	70	1,367	–	–	–	–	1,437
Revaluation of investment properties & other fixed assets	–	–	7,382	–	–	–	7,382
Share of revaluation of JVs & associates	–	–	42,502	–	–	–	42,502
Tax on revaluation surpluses realised in the year	–	–	–	–	–	(5,677)	(5,677)
Realised on disposal of investment properties and on dilution of interest in associates	–	–	(21,223)	–	–	21,223	–
Permanent diminution of investment properties	–	–	1,136	–	–	(1,136)	–
Credit in respect of LTIP charge	–	–	–	–	–	988	988
Purchase of own shares	–	–	–	–	(3,285)	–	(3,285)
Amortisation of cost of own shares	–	–	–	–	981	(981)	–
Profit retained in the period	–	–	–	–	–	9,825	9,825
As at 30 June 2004	**6,381**	**166,941**	**175,042**	**4,289**	**(4,125)**	**71,770**	**420,298**

Notes to the interim results

11 Reconciliation of net cash (outflow)/inflow from operating activities

	(Unaudited) 6 months to 30 June 2004 £000	(Unaudited) 6 months to 30 June 2003 £000	(Audited) Year to 31 December 2003 £000
Group operating profit	**7,522**	552	12,388
Profit on sale of trading and development properties	**(40)**	–	(25)
	7,482	552	12,363
Depreciation of other fixed assets	**160**	219	425
Amortisation of short leasehold properties	**134**	101	203
Amortisation of tenant incentives	**(11)**	(15)	(144)
Amortisation of goodwill	**575**	581	1,162
Profit on disposal of fixed assets	**–**	(6)	(6)
(Increase)/decrease in trade debtors, other debtors and prepayments	**(13,002)**	60	3,144
(Decrease)/increase in trade creditors, other creditors, taxation and social security and accruals	**(4,537)**	(378)	10,616
Non cash movement relating to the LTIP	**1,114**	683	1,184
Net cash (outflow)/inflow from operating activities	**(8,085)**	1,797	28,947

12 Debt valuation

The table below reflects the adjustment to the interim results, after the impact of corporation tax, required to adjust the carrying value of fixed rate debt and swaps to market value.

	(Unaudited) As at 30 June 2004 £000	(Unaudited) As at 30 June 2003 £000	(Audited) As at 31 December 2003 £000
Fixed and swapped loans – on balance sheet	**2,477**	–	1,648
Group share of associates	**3,129**	(8,572)	517
Group share of joint ventures	**1,139**	(1,562)	618
Total	**6,745**	(10,134)	2,783
Increase/(decrease) in net assets net of tax at 30% (2003: 30%)	**4,722**	(7,094)	1,948

13 International Financial Reporting Standards

The introduction of international financial reporting standards for accounting periods beginning on or after 1 January 2005 will have a significant financial impact on the Group. The Group has therefore decided to delay the introduction of IFRS for our statutory reporting by moving our year end forward by one day to 30 December 2004. The Group will still make disclosure of the impact of IFRS elsewhere in our annual report.

14 Copies of the interim report

Copies of the interim report are available from the Company's registered office at 10 Lower Grosvenor Place, London, SW1W 0EN.

This interim report was approved by the Board on 15 September 2004.

Additional information (Unaudited)

Property under management

	30 June 2004 £m	31 December 2003 £m
Investment properties	**61**	52
Trading properties	**8**	8
Mall Fund	**1,586**	1,243
Junction Fund	**844**	757
Leisure Funds	**504**	501
Other joint ventures	**218**	332
Total	**3,221**	2,893

Fund portfolio information

at 30 June 2004

	Mall Fund	Junction Fund	X-Leisure Fund
Number of core properties	18	16	19
Number of tenants	1,614	191	186
Square feet (000)	5,439	3,183	2,825
Properties at market value	£1,586m	£844m	£504m
Initial yield	6.08%	4.55%	6.37%
Equivalent yield	6.62%	6.01%	7.11%
Vacancy rate	3.7%	7.5%	1.4%
Net rental income (per annum)	£99.4m	£40.1m	£33.7m
Estimated rental income (per annum)	£118.6m	£48.4m	£37.2m
Rental increase (ERV)	1.6%	2.1%	-0.8%
Reversionary percentage	8.6%	11%	7.3%
Loan to value ratio	43%	47%	63%
Underlying valuation change since 31 December 2003	5.5%	7.1%	0.7%
Property level return	9.2%	9.6%	8.1%
Geared return	11.7%	13.8%	10.2%
Unit price (£1.00 at inception)	£1.5738	£1.5546	£1.0247
C&R share	29.9%	28.4%	10.77%

Notes:
1. Properties under management include tenant incentives which are transferred to current assets for accounting purposes (see note 8).

Interim dividend timetable 2004

Record date	1 October 2004
Last day to receive mandates	1 October 2004
Dividend warrants/tax vouchers posted	14 October 2004
Dividend payment date/shares purchased	15 October 2004
Certificates/purchase statements despatched	28 October 2004
CREST accounts credited	29 October 2004

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 FRS19, 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.

Reversionery percentage is the percentage by which the ERV exceeds the passing rent.

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 period 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.

UITF 28 "Operating lease incentives" debtors
Under accounting rules the balance sheet value of lease incentives given to tenants is deducted from property valuation and shown as a debtor. The incentive is amortised through the profit and loss account.

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.

Designed and produced by C&FD.
Printed in England by Cousin.