Capital & Regional plc
Annual report 2004

Contents

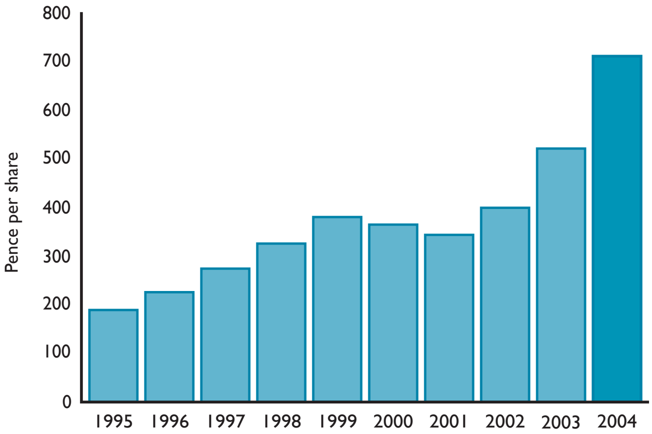
Capital & Regional . . . what we do

- C&R is a co-investing property asset manager. This means that we manage property assets for funds in which we hold a significant stake
- This enables our equity and management to be leveraged over a large portfolio and enhances returns to shareholders
- We aim to build best-of-class specialist management teams for the retail and leisure sectors in which we operate

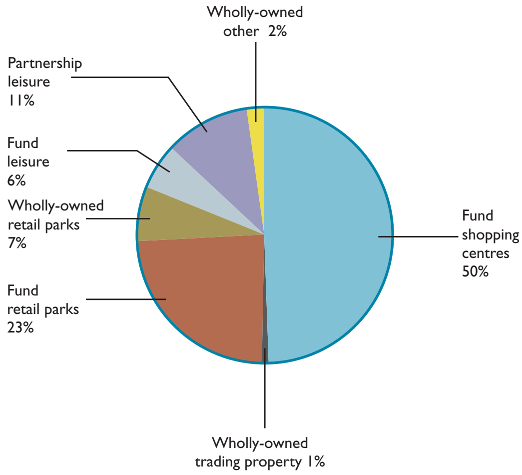
We're a bigger company than you think (see page 5)

Financial highlights

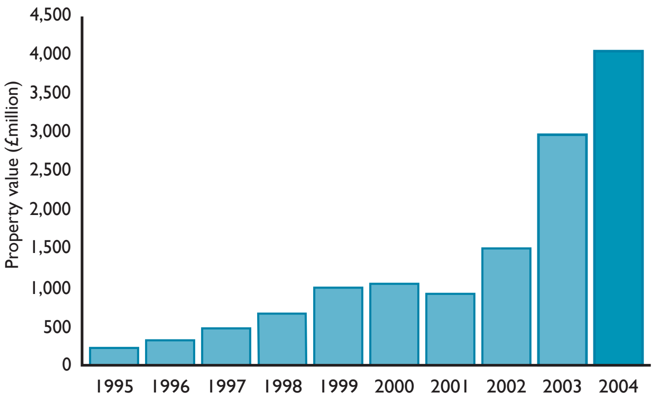
Growth in adjusted fully diluted net asset value (NAV) per share



Group exposure to property by sector (%)

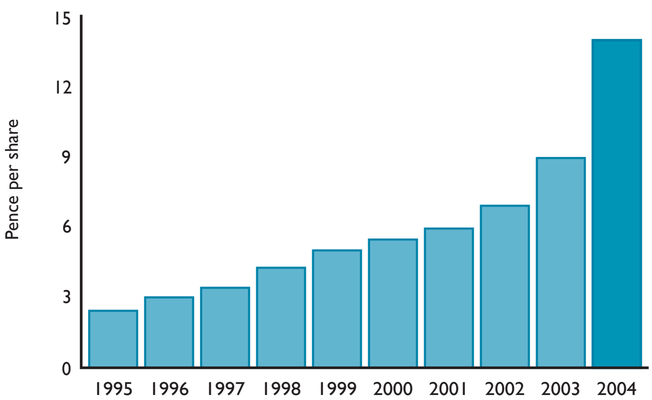


Property under management



£4 billion under management

Dividend growth



+56%

Chairman's statement

Introduction
2004 was another extremely successful year for the Company, with strong returns, property acquisitions and new institutional investment all contributing to the increase in property assets under management from £2.9 billion to £4.0 billion.

We generated a return on our equity of 39%, the second consecutive year at this sort of level; the adjusted fully diluted net asset value per share was 710p at the year end.

Our three principal funds, investing in shopping centres, retail parks and urban entertainment complexes, are run by specialist teams who share an intense focus on attracting visitors to their centres, with a view to enhancing the trading of their tenants and, hence, increasing rental values. This proactive approach, combined with the generally favourable conditions in our chosen sectors of the property market, has demonstrably delivered excellent results.

Our intensive operational approach, allied to our acquisition, development and financing expertise, should enable the Group to show continued outperformance against market benchmarks, leading to superior returns to our shareholders.

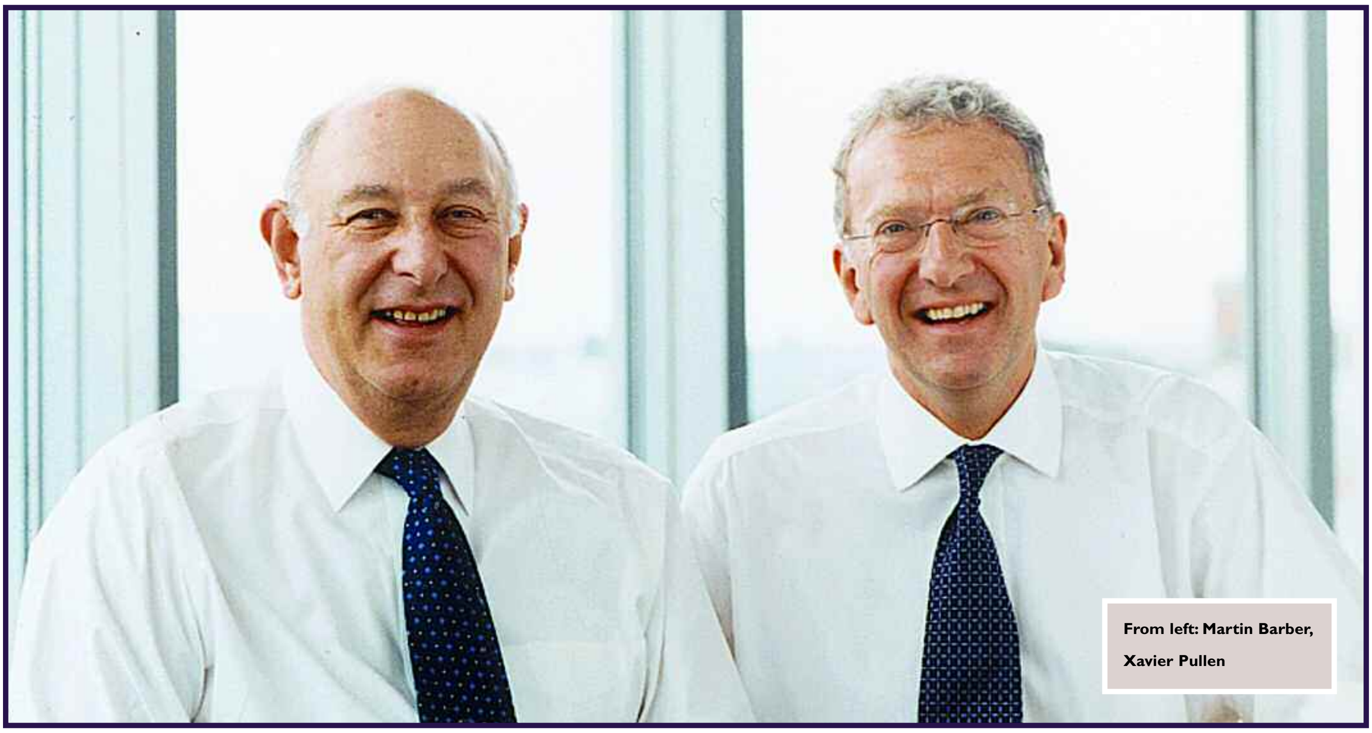
Dividends
In the light of the substantial increase in recurring management fee income achieved during 2004, as well as the good prospects for continuing performance fees becoming payable in future years, the Board believes that it is now appropriate to rebase the level of the dividend, by recommending a final dividend of 9p (2003: 5p), to make 14p for the full year (2003: 9p), a 56% increase over the previous year.

Board
The Board was further strengthened during the year through the appointment of Alan Coppin as an independent non-executive director. He brings extensive experience in the management of major visitor destinations and a strong interest in management and governance best practice.

Employees
A company rich in physical assets is no less dependent on its human ones than a so-called "people business". As the property assets for which the Company is responsible have increased fourfold in the past three years, the Capital & Regional team, now comprising 128 employees centrally and 497 at individual centres, has worked with huge commitment and imagination. The exceptional results that I have been able to report are directly attributable to our employees' great efforts, for which, on behalf of the shareholders, I give them corresponding thanks.

Tom Chandos
Chairman

Chief and Deputy Chief Executives' review



From left: Martin Barber, Xavier Pullen

Financial results

We are pleased to be able to report another set of strong financial results for 2004, the second full year of operating our new business model. Highlights include:

- Return on equity before exceptionals for the year 39.0% (2003: 37.6%).
- Adjusted fully diluted net asset value per share up to 710p (31 December 2003: 521p).
- Profit before tax and exceptional items of £36.2 million (2003: £26.3 million).
- 56% increase in the full-year dividend to 14p (2003: 9p).

Background to the financial results

We are now seeing the benefits of the decision taken to change the strategic direction of the Group and specialise in specific sectors.

The sectors we have chosen – in town shopping centres, retail warehouses and leisure – are deliberately chosen as ones which respond well to active management. They benefit from being run as businesses, in partnership with occupiers.

The needs of the traders are at the heart of our business, whether the sector is retail or leisure. Our centre managers mainly have a retail background rather than one in property, and are expected to understand the operating dynamics of the occupiers. Happy tenants means they are trading successfully which means the centre is thriving.

Specialisation has allowed us to invest in management teams intended to be "best in class" for their own sectors. Their skills can be spread over bigger portfolios, and they can exploit scale economies for the benefit of occupiers, fund investors and C&R.

We believe we have some of the most experienced and effective management teams in the industry. We are proud of their strength and depth. The interests of the management teams, the funds and C&R are well aligned by our business model. We believe that this is at the root of our success.

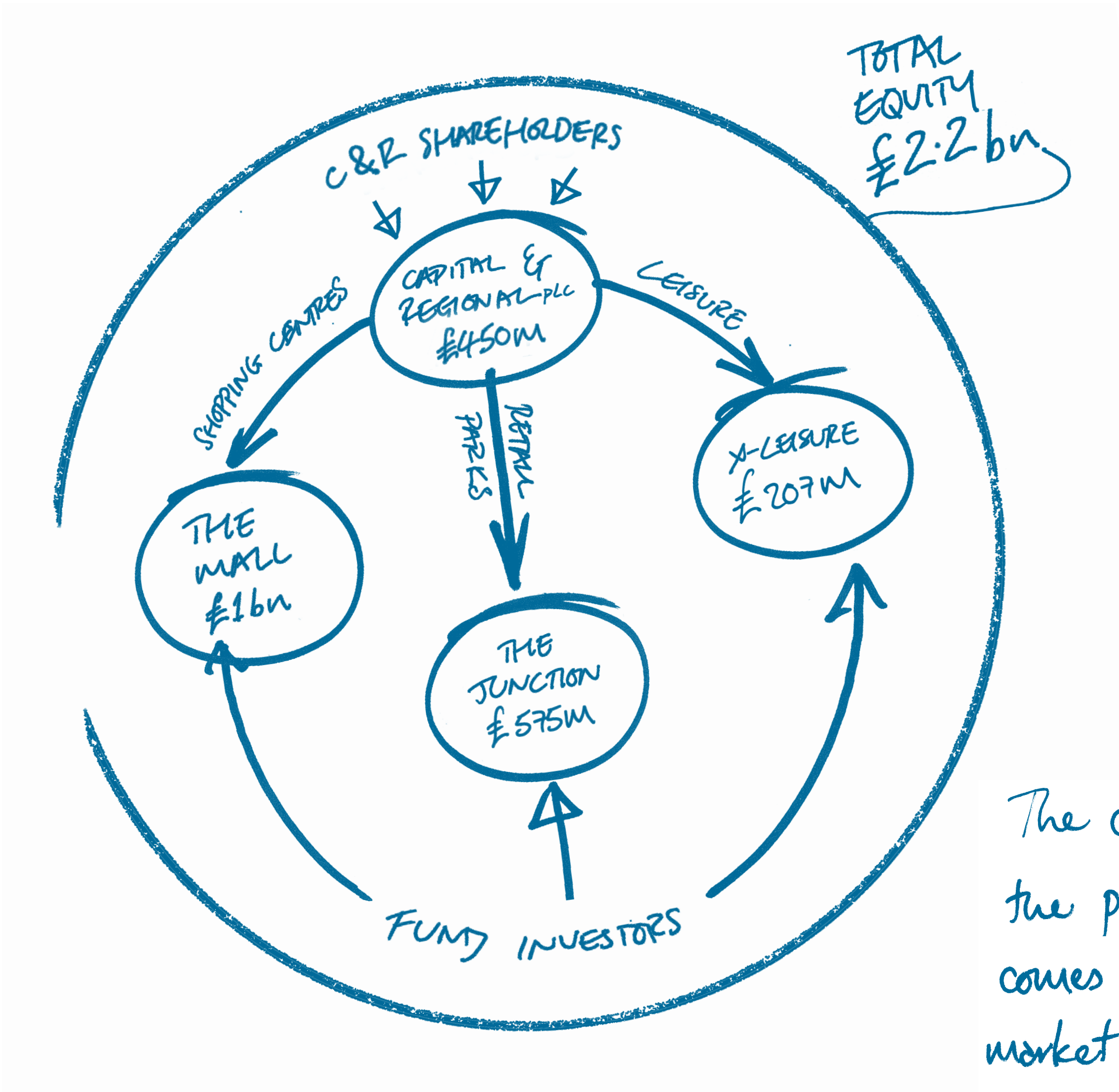
Business building

2004 was again a year of business building, with the Group's market position strengthened in a number of significant ways:

- Property under management increased from £2.9 billion to £4.0 billion. In particular we have increased the number of shopping centres we manage from 15 to 21, at 30 December 2004 and to 22 now.
- The X-Leisure Fund was established from the tail end of the three funds acquired from MWB. We now have a vibrant leisure division, with sufficient scale and significant opportunities for future expansion.
- We have restructured our principal investments via Jersey in order to increase liquidity in the market for units.

Convertible Unsecured Loan Stock (CULS)

In 2004 we started to buy back our CULS. The conversion price of £1.9448 is well below the current share price so



The capital for the property assets comes from stock market equity, and increasingly from fund investors.

we have had to pay a premium to redeem them. It is worth noting that the premium paid is written off through the Company's profit and loss account and reduces its taxable profit. We chose to reduce our capital by buying back CULS rather than shares because it simplifies our capital structure.

We have continued the repurchase programme after the year end, and have now bought approximately half the CULS issued.

Market overview

Current market conditions remain good despite the reported slowdown in consumer demand. There continues to be strong demand from investors looking for ways of finding suitable property exposure and we believe that there is room for further reductions in investment yields, particularly in the leisure sector.

Future prospects

The current year has started well. We have experienced and well incentivised management teams and the infrastructure in place for continued organic growth. This will allow us to produce attractive returns for both fund investors and C&R.

The longer-term outlook is more difficult to predict, but we remain confident that our business model will help us outperform.

Martin Barber
Chief Executive

Xavier Pullen
Deputy Chief Executive

Finance Director's review

Left: William Sunnucks, Group Finance Director

Below: the Corporate team

Left to right:
Falguni Desai
Anton Manuelpillai
Doug McAndrew
Tracy Richardson
Richard Snooks

39%

Better than a high interest Savings account!

Return on equity

Return on equity is still the key measure for our financial performance. Calculated directly from the audited accounts the 2004 figure is 37.0%. After adding back exceptional items it is 39.0%.

Total return	**2004 £m**	2003 £m
Profit before tax and exceptionals	**36.2**	26.3
Exceptional items	**(10.2)**	–
Gains taken to reserves	**122.0**	85.9
Pre-tax return	**148.0**	112.2
Tax	**(12.0)**	(10.6)
Total return for the year	**136.0**	101.6
Return on equity	**37.0%**	37.6%
Adjusted return on equity, before exceptionals	**39.0%**	37.6%

Drivers of return

39% is clearly a high return and shareholders will want to understand the four main economic drivers behind it. Four main drivers are identified below:

1 Earnings businesses: the Group is now a hybrid, with two significant earnings businesses which should be analysed differently from our property investments. Since they generate substantial profit from very little equity they significantly enhance our return on equity. Both businesses have been built up from small beginnings three years ago. Our property management business is operated by Capital & Regional Property Management Limited (CRPM), and our ski slope operating business by Snozone Limited. The corporate structure can be simplified as follows

Capital & Regional plc

Earnings businesses (Property management business and ski slope business)	Property investments (wholly-owned properties, joint ventures and fund co-investment)

2 Outperformance by the funds: all three funds are actively managed and outperformed their benchmarks on both a geared and ungeared basis. Strong performance from the funds benefits the Group in two ways: first through its co-investment, and secondly through the performance fees which entitle CRPM to an extra share of the outperformance over and above the benchmarks.

Fund performance in 2004

	Geared return %	Ungeared return %	IPD %
Mall	26.0	19.6	17.1
Junction	35.6	24.0	23.5
X-Leisure (nine months only)	18.0	11.4	–

3 Strong markets: investor demand for retail property drove up property values during the year, and investment yields fell. We have estimated that our total return can be split up as follows:

Effect of yield shift	21.5%
Active management and other factors	17.5%
Total return before exceptionals	39.0%

4 Non-fund property activity: our retail park and leisure teams still have significant non-fund activities, and these have made a major contribution to our return on equity:

Key non-fund investment	2004 return on equity %
Glasgow Fort – 50% JV	38.8
Swansea Retail Park – wholly owned	92.8
Xscape Milton Keynes – 50% JV	43.1
Xscape Castleford – 66.7% JV	24.3
Great Northern – 50% JV	9.4

Capital & Regional's offices in Victoria, London.

Finance Director's review

Profit and loss detail

The table below breaks down our turnover and profit into its main components:

Profit and loss account	2004 £m	2003 £m
Management fees	**19.3**	15.7
Performance fees	**31.2**	13.3
Ski slope income	**9.0**	5.5
Rental income	**2.9**	4.9
Group turnover	**62.4**	39.4
Property costs	**0.4**	(1.3)
Income from associates and JVs	**30.6**	35.9
Net interest payable	**(34.5)**	(29.5)
Ski slope expenses	**(7.5)**	(5.1)
Amortisation of goodwill	**(1.2)**	(1.2)
Fixed management expense	**(13.7)**	(11.8)
Variable management expense	**(13.0)**	(7.7)
Profit on disposals/investments net	**12.8**	7.6
Profit before exceptional items	**36.2**	26.3
Exceptional item re Jersey restructuring	**(2.0)**	–
Exceptional item re CULS	**(8.2)**	–
Profit before tax	**26.0**	26.3

Management fees: most of our management fee income is stable. The core fee income is paid by the funds, the service charge fees by the tenants. Only 8% of the total is related to work on property procurement which will fluctuate with the level of activity within the funds.

Management fees	2004 £m	2003 £m
Core fee income	**11.6**	10.7
Service charge fees	**3.2**	2.4
Other regular income	**3.0**	1.4
Procurement fees	**1.5**	1.2
Total	**19.3**	15.7

Performance fees: our property management company, CRPM, is entitled to performance fees, which are calculated as a share of the excess return over pre-agreed benchmarks. There are significant lags in the formula to ensure that only consistent performance is rewarded.

- Fees are calculated on a rolling three-year basis, so our 2004 performance will contribute to the 2005 and 2006 performance fees.
- If the calculation produces a negative figure in either 2005 or 2006, the 2004 fee can be clawed back.

Thus our strong performance in 2004 gives us a good start towards earning performance fees in 2005 and 2006. We only include in the 2004 profit and loss account the fees that are legally attributable to the year, as shown in the table below.

Performance fees	2004 £m	2003 £m	2002 £m
Mall	**22.8**	11.1	2.8
Junction	**7.3**	2.2	–
X-Leisure	**1.1**	–	–
Total	**31.2**	13.3	2.8

Ski slope income and expense: Snozone produced higher than expected profits in 2004. Castleford enjoyed its first full year of trading; cost controls were operating strongly at both Castleford and Milton Keynes; and some costs could be shared between locations.

The ski slope income comes mainly from ski slope ticket sales. Its expenses are staff costs and building occupation costs including rent.

Share of associates and joint ventures: a breakdown of income from this source is shown in note 19 of the financial statements. All three funds have enjoyed strong capital growth, and paid significant performance fees to CRPM. These fees are currently charged against the operating profit of associates, although they are driven by capital growth. The move to Jersey may allow the funds to offset performance fees against capital and in due course we hope that cash distributions will be increased.

Amortisation of goodwill: goodwill arising on the acquisition of the MWB leisure funds is amortised over 12.5 years. The cost of the goodwill was reduced by £1.2 million due to a carried interest earned and credited to C&R as extra units in the new leisure fund.

Management expense: over the last three years our fixed management expense has grown from £10.5 million to £13.7 million while the portfolio has grown from £900 million to £4 billion. We have tried to moderate the increase in our fixed cost base.

The variable management expense includes all payments which vary with the performance – letting fees paid to members of staff, bonuses, and the cost of the Long Term Incentive Plan (LTIP) and the Capital Appreciation Plan (CAP). The cost of the LTIP awards is spread over the three-year performance period. The cost of the CAP is borne in the year in which the performance fees are earned, although payouts are delayed for a further two years.

Exceptional items: our accounts have borne the cost of writing off £8.2 million of premium paid for the repurchase of the Convertible Unsecured Loan Stock (CULS). This reduces profit and total return, but it also reduces the number of shares after conversion. So on a fully diluted basis NAV per share will be enhanced.

The profit and loss account also shows a £2.0 million exceptional charge for the cost of transferring the Group's fund holdings into Jersey holding companies.

Financing and corporate structure

Value of property management business: we have been asked to provide more information to help investors understand the value of our property management business. Note 2 to the financial statements therefore includes for the first time an allocation of management expenses between our property management and property investment businesses based on an allocation of staff costs. The cash flows from the asset management business can be classified as follows:

Property management business (CRPM)	2004 £m	2003 £m
Asset management fees	19.3	15.8
Fixed overhead	(10.6)	(9.1)
Ongoing cash flow	8.7	6.7
Performance fees	31.2	13.3
Variable overhead	(11.8)	(6.5)
Performance-related cash flow	19.4	6.8

Dividend policy: our decision to increase the dividend is driven by an analysis of our recurring income. Recurring income includes rent, management fees, interest and fixed management expense. It excludes performance fees and variable overhead. It also excludes the share of the cost of performance fees which we bear as an investor in the funds.

We calculate that our recurring pre-tax profit for 2004 was £18.4 million. This translates into recurring post-tax earnings per share of 19.6p, which covers our 14p proposed total dividend for 2004 1.4 times.

Bank debt: the Group has bank debt of £118 million against adjusted shareholders' funds of £515 million including CULS of £20.4 million. This debt is secured on our wholly-owned properties, principally our investment in the Morfa site Swansea, and also on our units in The Mall and The Junction Funds.

The Group is also exposed to £531 million of bank debt through its interests in the three funds and its various joint ventures. The Mall and Junction portfolios are geared roughly 50/50 debt to equity, the X-Leisure fund is slightly higher at 65/35.

This £531 million includes our share of fund debt for which there is no recourse whatsoever to Group assets. In some cases there is recourse to the Group for debt incurred by joint ventures. These figures are prepared on a see-through basis, in other words, if we hold 27.86% of the fund, we include 27.86% of the fund debt.

On this see-through basis we have debt of £649 million against adjusted shareholders' funds (including the CULS) of £515 million, representing gearing of 126%.

Hedging: the floating rate interest on this bank debt must be paid from a fixed flow of rental income, and it is therefore prudent to enter into interest rate swaps to hedge the interest rate exposure. At the year end we had swaps on 72% of the £649 million with an average duration of 29 months. Since the year end further swaps have increased this to 76% and an average duration of 53 months.

Convertible Unsecured Loan Stock (CULS): at 30 December our balance sheet included £20.4 million of CULS each of which can be converted into shares at an effective conversion price of £1.9448. This is significantly below the current share price and we therefore treat the CULS as equity for gearing purposes.

We started to repurchase the CULS during 2004. The effects on our financial statements are as follows:

- We paid £12.4 million cash for the repurchase.
- £4.2 million of this reduces the book liability, the £8.2 million balance is taken as a loss through the profit and loss account as an exceptional item within interest payable.
- Net asset value is reduced by £8.2 million.
- Fully diluted NAV per share is enhanced on a post-tax basis.

We have continued to buy back CULS in 2005. Total buybacks to date can be summarised as follows:

	Nominal value £m	Expenditure £m	Premium £m
2004 buybacks	4.2	12.4	8.2
2005 buybacks	9.0	33.1	24.1
Total buybacks to date	13.2	45.5	32.3

International Accounting Standards

We will continue using UK GAAP for the year ended 30 December 2005. But we are preparing to adopt IFRS for 2006, and we will be providing supplementary information to shareholders later this year to ensure that they are fully informed. The extra year of UK GAAP is clearly in the economic interests of shareholders because there is certainty under UK GAAP about the accounting and tax treatment of the write-off of the premium paid on repurchase of the CULS.

William Sunnucks
Finance Director

Operating review – shopping centres

Left: Ken Ford, Chief Executive – The Mall

Below: The Mall Executive team

Left to right:
Mark Bourgeois
Matt Chambers
Gaynor Gillespie
Isobel Willamson-Jones
John Wood

The shopping centre market

2004 was a record year for investment transactions with over £5 billion worth of centres traded. Average lot size also increased to circa £75 million with nominal equivalent yields hardening in Mall-type centres to 6.25%, on par with The Mall's portfolio yield of 6.3%.

It is hard to see a softening of pricing in the short term. Indeed the weight of money for retail investment in particular suggests further yield compression during 2005 albeit at a lesser rate than the last two years.

As to rental growth, there is general concern in the market about the fundamentals of cooling consumer demand and general retail price deflation pressurising the retailers' capacity to support increased occupational overheads. Investors appear to be prepared to take at least a medium-term view on this.

Our view is that The Mall is well placed in such a market scenario, as outlined in Mall's market position on pages 10 to 11.

The Mall Fund

In early 2002 Capital & Regional injected its portfolio of shopping centres into The Mall Fund, a Limited Partnership set up with Morley Fund Management. Capital & Regional Property Management became the Property and Asset Manager, with Morley Fund Management becoming the Fund Manager.

Since then the portfolio has grown from 11 centres to 21 – a 22nd was acquired in early 2005 after the reference date for this report. Total gross assets are now approximately £2.25 billion, making The Mall one of the largest owners and operators of covered retail space in the UK.

The investor base has grown from the two founding investors to 30. New investors have contributed property, new equity or a mixture of both. The gearing of the fund has remained on average at 50% and the investment criteria continue to focus on:

- In-town covered shopping centres with integrated car parking and good public transport links; and
- A minimum size of 150,000 sq ft in a shopping catchment of more than 100,000 people.

During 2004 The Mall expanded by six new centres, investing £650 million, circa 12% of total shopping centre standing investment transactions for the year. Five of these acquisitions were made "off market", testimony to The Mall's market credibility. One centre, Bristol, was acquired for investment units in the fund; all others were bought with cash.

The Mall's market position

The Mall is seeing continuing strong tenant demand across all format sizes particularly so, however, in the 10,000 sq ft plus range. This is reflected in a low void rate of 2.8% which in itself includes strategic vacations for refiguration and reletting.


The Mall delivers shopping as it should be – from great customer service at our "Ask Me" points, to Mall TV.

The Mall model is intended to be robust in a more challenging consumer climate. It offers:

- UK-wide geographical diversity
- No reliance on any single occupier: top 20 retailers liable for only 32% of rent roll
- Competitive costs of occupation: average unit rent, £70,000 pa
- Mass-market tenancy roster
- Convenient and accessible local locations
- Emerging Mall brand loyalty

Performance

The Mall Fund performance	2004	2003
Property level returns	**19.6%**	21.7%
Fund level returns	**26.0%**	33.5%
IPD benchmark	**17.1%**	15.2%
Performance fee	**£22.8m**	£11.1m

Outperforming benchmarks

How?

The Mall Fund has significantly outperformed its IPD shopping centres benchmark on both a geared and ungeared basis. We believe that this has been driven by the scale of the portfolio, the benefits of branding and most of all by the strong teams which we have actively managing each centre in partnership with retailers.

Mall management

The Mall is managed by C&R's 48-strong dedicated team based in London and Glasgow working with The Mall Fund Manager at Morley.

We operate the Malls directly: no third-party managing agents are retained. In this way we enjoy direct relationships with both our retailers and shopping customers. The C&R team includes:

- Retail Development Managers, who are responsible for retailer relations, retail mix and space creation strategies. They work with our over 775 retail partners occupying nearly 2,000 units.
- The Operations Team of retail professionals provide the day to day management link with the At Mall Teams.
- Retail Surveyors supply tenancy, management and valuation services to the business.
- The Mall Facilities Management Team is responsible for statutory compliance and for ensuring that best practice and purchasing scale economies are applied across all Malls.
- A Project Management Team co-ordinates the procurement and delivery of construction services.
- The Marketing Team devises and co-ordinates delivery of marketing and promotional activities at The Malls. In addition this team is responsible for developing the commercial revenue and brand partner sponsorship programmes and The Mall brand.
- The Accounts Team collects and accounts for a rent roll of £132 million pa and a total service charge budget currently of £31 million.

This Mall Central Team operates to support the delivery of individual Mall business plans by the At Mall Teams. A high degree of local "M-powerment" is therefore necessary and this structured programme is delivered by The Mall's human resources unit, also a Mall central function.

Operating review – shopping centres

At Mall teams

On-site management is provided by 278 people based at The Malls. These "At Mall Teams" are the front line of the business and are closely aligned with The Mall brand values and operating culture. A typical "At Mall Team" includes:

- A General Manager: a key individual, normally with a retail management background. The GM is responsible for the daily running of the individual Mall business and the delivery of the business plan objectives.
- An Operations Manager: effectively the GM's deputy, the Operations Manager is actively involved in business plan delivery and service charge management. In addition the OM is responsible for statutory compliance issues at their Mall.
- A Marketing Manager: manages the marketing, promotional, advertising and PR activities at their Mall.
- Mall Administrator: provides administrative services to Mall management and monitors financial controls.

The Malls

We now have a portfolio of 22 centres across the UK, one of the largest in the sector:

Centre	Size (sq ft)
The Mall, Aberdeen	200,000
The Mall, Barnsley	170,000
The Mall, Bexleyheath	400,000
The Mall, Birmingham	400,000
The Mall, Blackburn	535,000
The Mall, Bristol	320,000
The Mall, Camberley*	360,000
The Mall, Chester	232,000
The Mall, Edgware	199,000
The Mall, Epsom	400,000
The Mall, Falkirk	190,000
The Mall, Gloucester	250,000
The Mall, Ilford	300,000
The Mall, Maidstone	542,000
The Mall, Middlesbrough	430,000
The Mall, Norwich	400,000
The Mall, Preston	270,000
The Mall, Romford	320,000
The Mall, Southampton	200,000
The Mall, Sutton Coldfield	500,000
The Mall, Walthamstow	280,000
The Mall, Wood Green	570,000
Total	**7,468,000**

* acquired in January 2005.

The retailers

We regard our retailers as business partners. We are aware that our success depends on theirs and we will work with them in every way we can to improve their businesses.

The Mall retailer base is unashamedly mass market, appealing to the majority of shoppers focused on value, convenience and choice. We also actively seek to accommodate local "heritage" retailers who have an association with their local communities.

Our scale encourages UK-wide, multi-Mall relationships. Over 60% of our multiple retailers are represented in two or more of our Malls.

We also operate where possible a flexible leasing policy which enables us to better manage the retail offer within individual Malls.

Open, direct and honest communication lies at the heart of our retailer relationships.

The top five Mall tenants are:	% of rental income	Number of units
Boots the Chemist Limited	2.74	18
Arcadia	2.58	28
Woolworths Plc	2.35	14
Clinton Cards	2.00	19
Alexon International Ltd	1.85	25

The Mall brand

The Mall has three brand values – Caring: Dynamic: Easy. They describe a way of behaving whether interacting with business partners or shoppers.

Over the last three years we have put considerable effort into building the consistent experience we believe The Mall represents. We have made this investment because it is good business. All our customers and suppliers are discerning. If we do not give them what they want they will "shop" elsewhere. We feel that our commitment to the brand values will help us deliver consistently for the customer. We can thus encourage customer and supplier loyalty and create a sustainable, profitable business.

A brand for community: to our shoppers we aim to make The Mall more than a collection of shops. The Mall is at the heart of the community. A place where shoppers enjoy spending time as well as money. The Mall environment is designed to be welcoming, secure and fun. Mall branded facilities like car parks, toilets and "Ask Me" points all contribute to the distinctive Mall shopping experience. We try to reach beyond the centre through our relationships with local authorities, police and local community groups. Through "The Mall Cares" we support locally-based charities. If we do all this and provide the right retail offer, shoppers will reward The Mall with frequent visit loyalty.

A brand for partnership: to our retailers, The Mall aims to be an inclusive business partner, working together to create the virtuous cycle of shopping satisfaction and commercial

The Mall has a constant dialogue with its customers bringing them familiarity with surprise – "What's on" boards, Mall TV and innovative "freshen up" toilet areas.

success. Our marketing and promotional campaigns are designed to increase the popularity of The Mall, driving relevant footfall and sales to our retailers.

The Mall strives to understand the dynamics of each retailer's business and has a flexible approach to leasing and retail mix. We appreciate retailer sensitivity to non-rental costs of occupation and through our direct bulk-buying of utilities and services, we create real cost savings.

A brand for people: to our people, The Mall works hard to be the employer of choice in all of our areas of operation. The At Mall Teams include specialists in retail, property investment and management, finance, human resources and marketing. We try to create a vibrant internal culture that eliminates barriers and encourages collective responsibility and creative thinking. Our M-powerment People Development Programme encourages all to be all they can be within The Mall.

Operating review – retail parks

Left: Andrew Lewis-Pratt, Chief Executive – The Junction

Below: The Junction team

Left to right:
John Gatley
Jo Lord
Graham Inglis
Ian Harris

Retail park market

Over the last 12 months the retail parks market has been the strongest performing sector within the UK property investment market. It is attractive to investors because there is strong tenant demand combined with tight planning controls. There are good prospects for rental growth, and this has been encouraging investors to drive down yields.

Tenant demand from open A1 retailers remains strong as is rental growth for quality locations. Demand from bulky goods retailers is becoming more focused on prime destination parks, where we expect to see continued rental growth albeit at a slower rate. Demand for secondary parks in poor locations seems unlikely to improve.

We would expect to see some further favourable yield in the short term, due to the weight of money the sector has attracted. However, the yield differential between prime and secondary has narrowed to a level which we believe is unsustainable.

Retail park activities

The C&R retail park team's main activity is the management of The Junction Fund, but it is also involved in a number of other projects as described in the table below.

Junction Fund

In early 2002 Capital & Regional injected most of its retail parks into The Junction Fund, alongside a similar number of retail parks injected by clients of Morley Fund Management. Capital & Regional Property Management became the Property Manager, and Morley Fund Management became the Fund Manager. Since then the portfolio has grown from £322 million to £1 billion. New investors have participated in the Fund, diluting Capital & Regional's interest from the original 50% to 27%.

The Junction will concentrate its activities on the prime open A1 and prime bulky goods parks which are dominant and/or have the ability to become dominant in their catchment area.

Retail park activities

Investment	Description	Recent activity	Sq ft
Junction Fund	17 core retail parks	Portfolio management	3,460,000
Glasgow Fort	Shopping park. Sold to Hercules Fund in June 2004	Now trading. C&R still entitled to certain overage payments	350,000 (Phase 1)
Morfa Retail Park, Swansea	Wholly-owned retail park development	Development completed in October 2004	260,000
Leckwith Retail Park, Cardiff	Potential large retail park development	Pre-letting in progress	400,000

We have a specialised, energetic, and motivated team of 22 people with varied backgrounds in retailing, development, investment and finance. We have developed and continued to develop our skills in what is still a specialist market.

The Junction retail parks

Since inception we have assembled through a mixture of acquisitions, sales, development, extensions and refurbishment a prime portfolio which would be extremely difficult to replicate. Strict investment criteria have ensured that the fund concentrates its activities only on prime open A1 and bulky goods parks which are dominant and/or have the ability to become dominant in their catchment area.

Junction tenants

We enjoy close working relationships with our tenants, and are able to offer them more opportunities to satisfy their ongoing requirements as our portfolio increases in size and quality. In 2004 we completed 25 lettings for over 450,000 sq ft of retail space and have diversified our tenant base to include a number of open A1 retailers.

Learning from the experiences of our colleagues at The Mall and X-Leisure, we have recruited an in-house operations team in order to provide our tenants with a much improved on-site service and to apply consistency of standards across the portfolio.

Junction retail parks	Size (sq ft)
Aberdeen	140,000
Aylesbury [1]	200,000
Beckton	190,000
Bristol	320,000
Glasgow	190,000
Hull [1]	330,000
Ipswich	210,000
Leeds	140,000
Leicester	170,000
Maidstone	170,000
Oxford	140,000
Paisley	190,000
Portsmouth	160,000
Renfrew	240,000
Junction Thurrock joint venture [2]	320,000
Wembley	260,000
Worcester	90,000
Total	**3,460,000**

1 Park size following completion of development works, currently under construction.
2 The Junction owns 65% of The Junction Thurrock joint venture.

Top five tenants	Number of units	% of rental income
B&Q	6	19.02
Comet	12	6.92
Carpetright	13	5.30
DSG Retail	8	5.08
Matalan	4	4.91

Below, left and right: The Junction, Hull.

Operating review – retail parks

The Junction Aylesbury – phase 1 newly developed.

Retail park shopping.

Acquisitions and disposals

Competition for retail park investments is extremely strong. Nevertheless over the year The Junction has increased its portfolio through the acquisition of £118.4 million of property. The two major acquisitions were the purchase of Great Western Retail Park for £53 million, in January 2004, reflecting an equivalent yield of 6% and in December 2004 the purchase of Kittybrewster Retail Park in Aberdeen for £52.6 million, showing an equivalent yield of 5.75%.

The only park sold in 2004 was Warrington, for £43.25 million.

Performance

In 2004 The Junction was the top performing fund in the HSBC/APUT All Pooled Funds Index. In both 2004 and 2003 The Junction outperformed its benchmark. As a result Capital & Regional has earned significant performance fees.

The 24% property level return in 2004 can be attributed to:

- Income 5.3%.
- Asset management and ERV growth 5.5%.
- Planning and development 2.7%.
- Yield shift 10.5%.

	2004	2003
Property level returns	**24.0%**	17.70%
Fund level return	**35.6%**	28.20%
IPD benchmark	**23.5%**	16.60%
Performance fee	**£7.3m**	£2.2m

Planning permission and development

Central Government policies and planning legislation with regard to out-of-town retail developments has been increasingly restrictive and now borders on draconian.

Despite this, The Junction has achieved considerable success in obtaining planning consents for new developments, existing park refurbishments and extensions, and change of use totalling 880,000 sq ft.

This will assist The Junction in delivering outperformance in future years, and has helped to create the development pipeline summarised below:

Phase 1 of our 200,000 sq ft development at Aylesbury has been completed and trading commenced in November 2004 with the balance scheduled for completion in August 2005. The 130,000 sq ft extension to Hull started on site in September 2004 with completion scheduled for August 2005. A further 100,000 sq ft was added at Bristol during the year, and consent was achieved for 430,000 sq ft at Oldbury following the planning inquiry in May 2004. Permission was also granted in October 2004 for the comprehensive redevelopment of 200,000 sq ft at Wembley. Prior to commencement the developments will be substantially pre-let, with fixed-priced building contracts signed in order to reduce the risk borne by the Fund.

Glasgow Fort

Phase I of this project was completed and opened for trade in October 2004. Notable lettings during this year include Zara, New Look and an extended Boots store. The overall un-let space by area is now only 4%.

The investment was sold during the year by the partnership in which C&R is a 50% partner for £195 million to Hercules Unit Trust, with the partnership retaining a right to receive further capital receipts in respect of the project and subsequent phases. These are subject to certain conditions and no value is included in Capital & Regional's balance sheet.

Morfa Shopping Park, Swansea

In October 2004 Capital & Regional completed the Morfa Shopping Park in Swansea. This investment comprises 105,000 sq ft of open A1 retail and 132,000 sq ft of bulky goods retail, in addition to some A3 restaurant units. Existing tenants include B&Q, Next, TK Maxx, Boots and Asda George. Of the remaining 30,000 sq ft available to let, 10,000 sq ft is under offer and strong demand in the remaining space is being shown at significantly higher rent levels.

This investment has significantly exceeded our expectations and we anticipate further capital growth in 2005.

Junction development pipeline

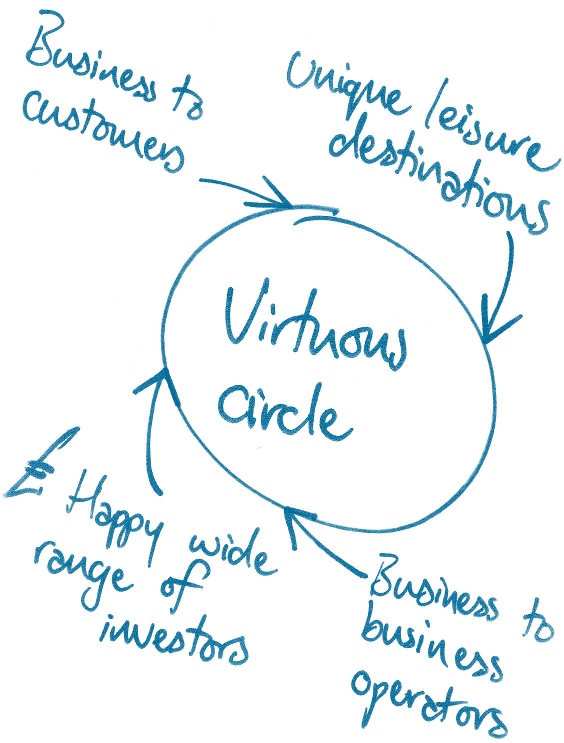
Development	Description	Status	Existing area (sq ft)	Further development area (sq ft)
Aylesbury	Development of old existing retail park	On site	30,000	200,000
Hull – Phase II	New space extension	On site	240,000	130,000
Bristol – Phase IV	New space extension	Phase V completed	320,000	156,000
Wembley	Redevelopment and refurbishment of old existing retail park	Commence work April 2005	260,000	n/a
Oldbury	New development	Planning consent achieved	n/a	430,000
Thurrock	Redevelopment and refurbishment	On site March 2005	490,000	n/a
Paisley	New space extension	Planning permission awaited in June 2005	190,000	85,000
Leicester	New space extension	Planning consent achieved	170,000	17,500
			1,700,000	1,018,500

Operating review – leisure

Left: PY Gerbeau, Chief Executive – X-Leisure

Below: The X-Leisure team

Left to right:
Alastair Bell
Polly Farrell
Pierre Hardy
Arnaud Palu
Robert Warner



As the largest leisure landlord in the UK, the X-Leisure Fund and Xscape destinations continue to deliver the leisure destinations of the future, offering branded destinations, where our business partners want to be, where the customers prefer to go and as a result maximising sustainable returns to our investors.

Leisure market overview and trends

Increasingly the leisure sector is attracting interest from a wider audience of investors. This is not surprising when one looks at the initial yield across leisure investments compared to other asset classes. The leisure sector is looking good value and the weight of money currently in the market is beginning to harden these yields as investor demand seeks out value. There are also additional unique benefits that the leisure market offers to the investor that the market is now recognising when considering leisure as a property investment. Unexpired lease lengths in excess of 20 years, good covenants and guaranteed rental uplifts at future reviews guaranteeing future reversionary income stream and the equivalent yields.

The X-Leisure approach

At X-Leisure we have always passionately believed in the destination/experience business model achieving differentiation and a unique selling proposal. That's why as a team we concentrate on the consumer experience, as well as our tenants'/partners' success, and not just bricks and mortar. In 2004 we have held 205 events across our portfolio supported by 2.5 million marketing leaflets, significant advertising spend, and provided customer service training to tenants/partners. The last year has seen footfall increases and positive rent review settlements; one can argue whether these positive results are down to marketing initiatives, or increase in consumer spending and operator demand. Either way it has benefited returns to our investors.

It is evident that today's consumer has become more sophisticated; therefore, product differentiation is paramount. Differentiation comes from range, price and location but increasingly the total consumer experience is vital. Consumer experience and success comes from destination leisure, delivering unique, integrated experiences.

No longer can owners within these sectors sit back and collect rent and expect to outperform educated/specialist owners.

C&R leisure division's activities

Capital & Regional's leisure team has four major responsibilities:

Asset	Description
X-Leisure Fund	A portfolio of 17 urban entertainment complexes
Xscape partnerships	Xscapes in Milton Keynes and Castleford (near Leeds) A third is being built in Braehead (near Glasgow)
Snozone	Snow slope operating business. Successful cash flow business. Pays rent to Xscape partnerships
Great Northern partnership	Large retail and leisure property in central Manchester

X-Leisure Fund

The X-Leisure Fund was formally launched on 15 March 2004 with a gross asset value at inception of £502 million and nine investors with C&R holding 10.77% of the equity. At the year end the Fund's gross asset value £597 million with one additional investor – Royal Mail Pension Fund. The X-Leisure Fund is the largest leisure fund in the UK and the scale of ownership provides the opportunity to carry out cross-portfolio deals allowing expansion and restructuring with our occupiers.

Acquisitions/disposals

The major acquisition in 2004 was the Brighton Marina retail and leisure destination at £65 million. There are capital gains to be made from both short-term asset management initiatives as well as longer-term and more ambitious development plans across the scheme. The scheme also offers branding and destination marketing opportunities and will therefore benefit from X-Leisure's specialist marketing

Top and above: the X-Leisure approach is about creating industry leading leisure destinations with complementary lifestyle retail.

approach and expertise. The asset is now a key holding within the fund.

The fund also acquired the 25% holding of the "O2" London long leasehold interest from JV partner Burford. This resulted in a significant capital value gain from the merging of the two interests and the benefits from 100% ownership and initiatives.

Other major activity: the combination of the three funds into one and the extension of the fund life has freed the fund to start a number of significant projects. For example:

- Tower Park, Poole – planning permission was received for a 16,000 sq ft (four unit) extension. Work has commenced with completion due in Summer 2005.
- Star City, Birmingham – the turnaround of this regional destination has commenced with the start on site of the construction of a mini snow slope, skate park, air park and climbing walls.
- At Great North, North Finchley, planning was granted and pre-lets were agreed for the reconfiguration of accommodation.
- Successful rent review settlements above estimated rental values were achieved at the O2 Centre, London and Lockmeadow in Maidstone.

Performance: over the nine months since inception, the fund level return was 18%. Annualised this is an equivalent of 23.3%. The fund's annual hurdle rate of return is 12% and we are pleased to have earned a £1.1 million performance fee.

Top and above: skiers and boarders enjoying snow all year round at Castleford

More than 45 million people visited X-Leisure attractions in 2004, enjoying a wide range of facilities from bowling, cinema and casinos to waterparks and extreme sports.

Xscape

Xscape Milton Keynes: the property is fully let although various asset management initiatives have moved the value forward over the year increasing rental values and rental incomes by sub-divisions/reconfigurations. Xscape Milton Keynes remains the flagship entertainment leisure destination within the UK and welcomed 6.1 million visitors in 2004.

Xscape Castleford, Leeds: 2004 saw its first full year of operation. Over the year £550,000 of new rental income was exchanged. At the year end the property was 90% let by floor area. The scheme is now trading successfully and year-on-year growth being experienced. The surrounding area has seen substantial development with the opening of a 100,000 sq ft B&Q, reconfiguration/expansion commencing on the adjoining factory outlet and the completion of a 120-bedroom hotel.

Xscape Braehead: Laing O'Rourke's started construction on site in June 2004 and the 310,000 sq ft building is currently on target to open in Spring 2006. A tremendous level of tenant interest has been experienced with 70% by floor area already pre-let. This Xscape is being developed in a joint venture with the owners of the very successful Braehead Shopping Centre on the adjoining site. It will offer additional attractions ensuring that the Xscape brand continues to be innovative and exciting.

Snozone Ltd

Snozone operates the indoor snow slopes at the Xscapes and has grown at both Xscape Milton Keynes and Xscape Castleford, exceeding profit forecasts year on year with an excellent expansion strategy. Year-on-year growth has been seen in both destinations and, as awareness of the all year round ability to ski within the destinations increases, the seasonal factor of the business, particularly in Milton Keynes, is becoming less acute.

Great Northern Warehouse, Manchester

This refurbished former railway warehouse is 50% owned in a JV company, Morrison Merlin Ltd, with Anglia Water Group. In 2004 an agreement for lease was exchanged with London Clubs International for a 40,000 sq ft casino. Final licensing and planning approvals are expected in the first half of 2005 enabling the casino to open in early 2006.

Who are they?

The Board, from left:
Standing – Paul Stobart, Kenneth Ford, Andrew Lewis-Pratt, Hans Mautner, Xavier Pullen, PY Gerbeau.
Seated – David Cherry, Martin Barber, Tom Chandos, William Sunnucks, Alan Coppin.

Tom Chandos Chairman, 52
Chairman of Nomination Committee
Tom is the Chairman of The Television Corporation plc and a non-executive director of Global Natural Energy plc and of a number of private companies. In addition to his board positions, he has worked in investment banking and alternative investment areas such as venture capital and hedge funds. He is a Labour member of the House of Lords. He was appointed as a director of the Company in 1993 and as Chairman in 2000.

Martin Barber Chief Executive, 60
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 co-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 MA ACA
Finance Director, 48
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, 53
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 and the development of new business initiatives.

Kenneth Ford BSc FRICS
Managing Director of Shopping Centres, 51
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 30 years. He founded the Easter Management Group Scotland in 1991 prior to joining Capital & Regional.

Andrew Lewis-Pratt BSc ARICS
Managing Director of Retail Parks, 47
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.

PY Gerbeau
Managing Director of Leisure, 39
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.

David Cherry Non-executive, 67
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.

Hans Mautner Non-executive, 67
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. Hans was appointed as a director of the Company in 2003.

Paul Stobart Non-executive, 47
Chairman of Audit Committee and member of Remuneration and Nomination Committees
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 The Sage Group in 1996 as Business Development Director, becoming Managing Director, UK and Ireland, in 2003. In 2001 Paul was appointed a non-executive director of Planet Holdings plc. Paul was appointed as a director of the Company in 2003.

Alan Coppin Non-executive, 54
Member of Audit Committee
Alan is currently Chairman of Danoptra Limited, the leading amusement machine and leisure management group backed by Electra. His previous positions have included being Chief Executive of Wembley plc and Historic Royal Palaces. In the voluntary sector, his current appointments include the Chairmanship of the Prince's Foundation for the Built Environment and membership of the Advisory Forum of the Said Business School at Oxford University. Alan was appointed as a director of the Company during the year.

Advisers and corporate information

Auditors
Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR

Investment bankers
Credit Suisse First Boston
1 Cabot Square
Canary Wharf
London E14 4QJ

UBS Warburg
1 and 2 Finsbury Avenue
London EC2M 2PP

Principal legal advisers
Olswang
90 High Holborn
London WC1V 6XX

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

Nabarro Nathanson
Lacon House
84 Theobalds Road
London WC1X 8RW

Maclay Murray & Spens
151 St Vincent Street
Glasgow G2 5NJ

Principal lending banks
Bank of Scotland plc
New Uberior House
11 Earl Grey Street
Edinburgh EH3 9BN

Royal Bank of Scotland plc
135 Bishopsgate
London EC2N 3UR

Barclays Bank plc
Property Team
Business Banking
54 Lombard Street
London EC3V 9EX

Principal valuers
DTZ Debenham Tie Leung
One Curzon Street
London W1A 5PZ

King Sturge
7 Stratford Place
London W1C 1ST

Jones Lang LaSalle
22 Hanover Square
London W1A 2BN

Registered office
10 Lower Grosvenor Place
London SW1W OEN
Telephone: 020 7932 8000
Facsimile: 020 7802 5600

www.capreg.com

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. During the period the members were H Mautner (Chairman), D Cherry and P Stobart.

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 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 2004 the Committee has awarded cash bonuses to the executive directors based on an assessment of their individual achievements during the period and on the Company's financial performance.

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 (the "LTIP")
- The Capital Appreciation Plan (the "CAP").

No options have been granted under the Closed Schemes following the expiry of the shareholder approval for that plan in May 1998. In addition, no further awards will be made under the 1998 Schemes which have been supplanted by the LTIP and CAP plans.

The terms of the LTIP permit the Committee to make conditional awards of shares to participants annually with a market value not exceeding 100% of the participants' basic salary. All the executive directors together with other key executives of the Company are participants in the LTIP. A total of 466,335 shares were conditionally awarded to the participants in 2004. All LTIP awards are subject to meeting performance conditions in order to incentivise and retain key executives to increase the return on capital by aligning their interests with those of the shareholders of the Company. Details of the awards made in 2004 and a summary of the performance conditions are set out under the heading "Long Term Incentive Plan" below.

All the present executive directors and other key executives are participants in the CAP. The terms of the CAP permit the Committee to make awards to the participants annually that will entitle them to receive payments in aggregate of up to 30% of the performance fees receivable by the Company from the Mall, Junction and X-Leisure Funds. Awards made under the CAP are also subject to the achievement of performance conditions. In 2004, a total of £7,792,000 has been awarded to the participants, which represents 24.96% of the performance fees earned by the Company during that period. The level of CAP awards determined by the Committee took into account, inter alia, the level of cash bonuses paid to executives for the year. To the extent that the awards ultimately vest, the individual entitlements for 2004 will be reduced by 80% of the value of the shares awarded under the LTIP. Details of the awards made in respect of 2004, and a summary of the performance conditions for payment, are set out under the heading "Capital Appreciation Plan" below.

Pension arrangements
The Company makes contributions, at proportional rates to basic salary, to defined contribution pension schemes of each executive director's choice, except in the cases of M Barber and X Pullen where £48,759 and £46,099 salary, in lieu of pension contributions, were paid to them respectively.

Other benefits
Benefits consist of 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 rolling 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 will determine 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.

Directors' remuneration report

The dates of the executive directors' service 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

The Company allows executive directors to take up external positions outside the Company, providing they do not involve a significant commitment and do not cause conflict with their duties to the Company. Directors are allowed to retain all remuneration arising from any external position.

Both the Chief Executive and the Finance Director are Chairmen of companies external to the Group. M Barber is Chairman of CenterPoint Properties Trust, an American company listed on the New York Stock Exchange.
W Sunnucks is the Chairman of Land Management Limited, a family-run company. The Company does not consider that either of these appointments involves significant commitment nor that the roles cause conflict with their duties to the Company. Any earnings received from these appointments are kept by the individuals concerned and have not been disclosed to the Company.

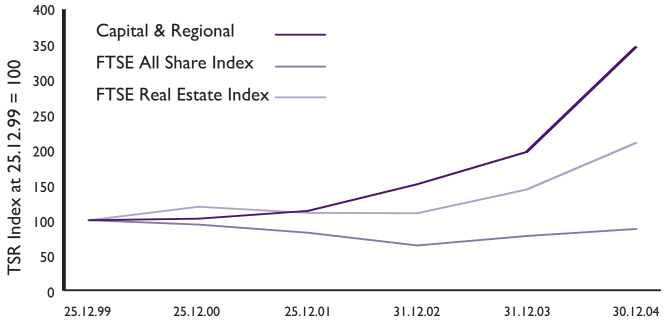
Non-executive directors – remuneration
Each non-executive director currently receives fees of £27,000 per annum. The Chairman receives additional fees of £63,000 per annum and the Chairman of each of the Audit and Remuneration Committees receives an additional fee of £5,000 per annum.

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

None of the non-executive directors has a service agreement. They are all appointed for three-year fixed terms.

Performance graph
This 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 by the Board to be the appropriate comparator for this purpose. Performance is measured by total shareholder return (share price growth plus dividends paid).

Total shareholder return (TSR) for the period 25 December 1999 to 30 December 2004



Audited information

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

	As at 31 December 2003	Shares conditionally awarded in 2004	Market price on date of award (p)	End of qualifying period	**As at 30 December 2004**
M Barber	84,138	–	310.5	31/12/04	**84,138**
	68,750		394.5	31/12/05	**68,750**
		55,000	500.0	31/12/06	**55,000**
X Pullen	79,459	–	310.5	31/12/04	**79,459**
	65,000		394.5	31/12/05	**65,000**
		52,000	500.0	31/12/06	**52,000**
W Sunnucks	30,596	–	310.5	31/12/04	**30,596**
	50,000		394.5	31/12/05	**50,000**
		40,000	500.0	31/12/06	**40,000**
K Ford	76,490	–	310.5	31/12/04	**76,490**
	62,500		394.5	31/12/05	**62,500**
		50,000	500.0	31/12/06	**50,000**
A Lewis-Pratt	76,490	–	310.5	31/12/04	**76,490**
	62,500		394.5	31/12/05	**62,500**
		50,000	500.0	31/12/06	**50,000**
PY Gerbeau	58,132	–	310.5	31/12/04	**58,132**
	56,250		394.5	31/12/05	**56,250**
		45,000	500.0	31/12/06	**45,000**

In addition to the above, during the period 174,335 shares were awarded to key executives at 500.0p; total conditional awards held by key executives at 30 December 2004 amounted to 340,629 shares. Awards in respect of 2003 and 2004 in an amount of 85,250 shares have lapsed following the departure of certain executives.

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

The extent to which shares conditionally awarded in 2004 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 30 December 2004, 2005 and 2006. 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 the ROE falls between 10% and 18% the percentage of shares will vest at an incremental rate.

ROE is calculated by dividing the total of profit attributable to shareholders and all other 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.

The Remuneration Committee has elected to adjust the total return calculation to eliminate the effect of the CULS premium write-off.

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 2004.

The interests awarded will only be paid in full if none of the shares conditionally awarded under the LTIP in 2004 vest in 2007. 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 2004 are clawed back as a result of under-performance of the funds in 2005 or 2006. Consequently, no payments will be made in respect of the 2004 awards until 2007, when this clawback right lapses.

2004	Interest awarded %	Value of initial award* £000	Maximum amount of offset Note 1	Maximum offset carried forward from previous year Note 2
M Barber	**3.79**	**1,183**	**220**	**–**
X Pullen	**3.54**	**1,105**	**208**	**–**
K Ford	**4.04**	**1,261**	**200**	**–**
A Lewis-Pratt	**3.79**	**1,183**	**200**	**–**
W Sunnucks	**2.74**	**855**	**160**	**–**
PY Gerbeau	**2.10**	**655**	**180**	**–**
2003				
M Barber	4.89	650	273	–
X Pullen	4.50	600	236	–
K Ford	6.00	800	197	–
A Lewis-Pratt	4.50	600	297	–
W Sunnucks	2.40	320	213	–
PY Gerbeau	2.49	330	233	–

Note 1 The amount of the potential offset represents 80% of the LTIP award made in 2004 plus the offset carried forward from 2003; 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.
* The actual amount paid is subject to clawback and minor adjustments.

In addition to the above, key executives who were not directors were awarded 4.96% (2003: 5.22%) interests with a value of £1,550,000 (2003: £695,130). Key executives who received 3.41% of those interests with a value of £1,065,000 also received LTIP awards whose maximum gross aggregate offset amounted to £473,740 (2003: £547,855).

Directors' remuneration

The remuneration of the directors who served in the period ended 30 December 2004 is analysed below:

	Salary and fees £000	**Discretionary bonus £000**	**2004 Pension contributions £000**	**Other benefits £000**	**2004 Total £000**	2003 Total £000
M Barber	**275**	**275**	**49***	**27**	**626**	599
X Pullen	**260**	**260**	**46****	**20**	**586**	561
K Ford***	**250**	**250**	**38**	**21**	**559**	534
A Lewis-Pratt	**250**	**250**	**38**	**20**	**558**	533
W Sunnucks	**200**	**200**	**25**	**21**	**446**	424
PY Gerbeau	**225**	**225**	**–**	**21**	**471**	319
	1,460	**1,460**	**196**	**130**	**3,246**	2,970
T Chandos	**90**				**90**	90
M Gruselle	**–**				**–**	15
D Cherry	**27**				**27**	27
P Duffy	**12**				**12**	27
H Mautner	**32**				**32**	11
P Stobart	**32**				**32**	14
A Coppin	**7**				**7**	–
	200				**200**	184
Total	**1,660**	**1,460**	**196**	**130**	**3,446**	3,154

* £48,759 was paid to M Barber as salary in lieu of pension contributions (2003: £48,857).
** £46,099 was paid to X Pullen as salary in lieu of pension contributions (2003: £46,192).
*** £19,307 will be paid to K Ford in respect of the 2002 CAP award.

Directors' remuneration report

Other key executives who received 1.55% of the remaining interests with a value of £485,000 received CAP awards only and no LTIP awards.

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 30 December 2004 other than Hans Mautner who purchased 2,000 ordinary shares of 10p each in the Company on 4 April 2005.

	Ordinary shares of 10p each		6.75% convertible subordinated unsecured loan stock 2006/16	
	30 December 2004 Shares	31 December 2003 Shares	**30 December 2004 £**	31 December 2003 £
M Barber	**2,354,715**	2,290,244	**35,394**	35,394
X Pullen	**1,089,991**	917,421	**23,693**	23,693
W Sunnucks	**9,185**	9,185	–	–
K Ford	**382,043**	382,001	**–**	–
A Lewis-Pratt	**14,153**	14,153	**–**	–
PY Gerbeau	**–**	–	**–**	–
T Chandos	**45,000**	45,000	**5,000**	5,000
D Cherry	**5,580**	5,580	**–**	–
P Stobart	**–**	–	**–**	–
H Mautner	**36,083**	25,906	**–**	–
A Coppin	**3,350**	–	**–**	–
P Duffy	**–**	–	**–**	–

Interests in share options

	As at 31 December 2003	Exercised	**As at 30 December 2004**	Exercise price (p)	Market price at date of exercise (p)	Earliest exercise date	Latest exercise date	Exercise condition met
M Barber	104,263	104,263	**–**	131.4	542.0	28/10/97	22/10/04	Yes
	50,582	50,582	**–**	226.4	462.0	18/06/00	18/06/04	Yes
	50,000	–	**50,000**	211.5		13/09/03	13/09/10	Yes
	204,845	154,845	**50,000**					
X Pullen	104,263	104,263	**–**	131.4	511.0	28/10/97	22/10/04	Yes
	50,582	50,582	**–**	226.4	511.0	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
	304,845	154,845	**150,000**					
K Ford	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
	300,000	–	**300,000**					
A Lewis-Pratt	75,000	75,000	**–**	191.5	500.0	18/02/02	18/02/07	Yes
	50,000	50,000	**–**	211.5	500.0	13/09/03	18/09/10	Yes
	125,000	125,000	**–**					

During the period the directors made total gains of £1,462,638 (2003: £974,029) relating to share options exercised in the period.

During the period, the share price ranged from a high of 695p to a low of 402.5p. The share price as at 30 December 2004 was 695p.

No share options were granted during 2004 and no further awards will be made under these schemes to participants of the LTIP.

Approval

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and was approved by the Board of Directors and signed on its behalf by:

F Desai
Company Secretary
28 April 2005

Directors' report

The directors present their report together with the audited financial statements for the period ended 30 December 2004.

Results and proposed dividends

The consolidated profit and loss account is set out on page 38 and shows a profit on ordinary activities after taxation of £20,189,000 (2003: £19,381,000).

The directors recommend the payment of a final dividend of 9.0p per ordinary share on 20 June 2005 to members on the register at the close of business on 22 April 2005, which together with an interim dividend of 5.0p per ordinary share, paid in 2004, makes a total dividend of 14.0p per share for the period.

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 and Deputy Chief Executives' review, the Finance Director's review and the operating reviews on pages 3 to 21.

Directors

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

All directors served throughout the period, with the exception of P Duffy who resigned on 11 June 2004 and A Coppin who was appointed on 24 September 2004.

In accordance with the Articles of Association, A Coppin, having been appointed after the last Annual General Meeting, will retire by rotation and, being eligible, offers himself for re-appointment. X Pullen, A Lewis-Pratt and K Ford 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 3,940,100 issued shares representing 6.15% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report on page 28.

There were no contracts of significance subsisting during or at the end of the period in which a director of the Company was materially interested, other than as set out in note 35 to the accounts. No director had a material interest in the share capital of other Group companies during the period.

Share options

Details of outstanding share options granted to the directors under the 1988 and 1998 Share Option Schemes, are disclosed in the directors' remuneration report on page 28.

The Capital & Regional plc Long Term Incentive Plan 2002 ("LTIP") and The Capital & Regional plc Capital Appreciation Plan 2002 ("CAP") (together the "Plans")

The Company obtained shareholder approval to establish the LTIP and CAP on 18 December 2002 for the benefit of the executive directors and key executives. Details of the plans and awards made under them, can be found in the directors' remuneration report on pages 26 to 28.

In accordance with the rules of the LTIP and CAP the Plans are due for renewal in 2005 and the Board are recommending extension with minor changes as set out on page 30.

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 8 April 2005 (the latest practicable date prior to the issue of this report):

	No. of shares	%
Neuberger & Berman LLC	5,533,113	8.23
F&C Asset Management	4,226,087	6.29
Henderson Global Investors	3,462,575	5.15
United Nations Pensions Fund	3,301,561	4.91
ABP Investments	3,117,938	4.64
ING Investment Management	2,764,300	4.11
Morley Fund Management	2,752,838	4.09
UBS Global Asset Management	2,578,723	3.84
Legal & General Investment Management	2,357,027	3.51

Charitable donations

During the year the Group contributed £16,848 (2003: £3,700) 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 the receipt of the goods or service. At the year end, the Company had an average of 29 days (2003: 27 days) purchases outstanding.

Directors' report

Compliance with Combined Code
A statement on corporate governance is set out on pages 32 to 35.

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 appointed consultants, who put such a scheme in place, and also nominated a stakeholder pension provider at that time. Employees have had access to join this scheme since May 2001.

Dividend Reinvestment Plan
In 1999, the Company introduced a service whereby shareholders can use their cash dividends to buy more shares in the capital of the Company. The plan was introduced for those shareholders preferring capital appreciation rather than income from their shareholding, and has been available to all shareholders from the 1999 interim dividend onwards.

The timetable for the 2004 final dividend is set out on page 68. Details of the terms and conditions of the Dividend Reinvestment Plan can be obtained by contacting the Company Secretary at the registered office.

Change of year end
During the period the Group's year end was changed to 30 December.

Post balance sheet events
Post balance sheet events are set out in note 37 to the accounts.

Auditors
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
Directors' authority to allot securities

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 £2,134,653 representing one-third of the nominal value of the Company's currently issued share capital. The authority will expire at the conclusion of the Company's Annual General Meeting in 2006.

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 2004, the Company was granted authority to make purchases in the market of its own shares, subject to specified limits. This authority, which has not as yet been exercised, expires at the conclusion of the Company's 2005 Annual General Meeting. Therefore by resolution 11, it is proposed as a special resolution that this authority in respect of the Company is renewed and also that the Company may cancel any bought-in shares immediately or hold them in treasury.

The authority is sought until the conclusion of the 2006 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.

LTIP and CAP – summary of the Plans

Save as proposed below, the principal features of the LTIP remain unaltered from those approved by shareholders in 2002. The Remuneration Committee may grant awards to participants at its discretion of up to 100% of their basic salaries in any financial year. Awards are in the form of shares, which are held by trustees subject to the exercise of an award by a participant in accordance with the rules of the LTIP. Subject to the satisfaction of the eligibility criteria and performance conditions in relation to that award, a participant is currently able to exercise from the third anniversary of the award date up until the day before the tenth anniversary of the award date. When a participant exercises an award the shares held by the trustees are transferred to the participant. No payment is required from participants for an award.

The principal features of the CAP also remain unaltered from those approved by shareholders in 2002. Under the CAP, the Remuneration Committee, at its discretion, makes awards to participants, which entitle them to receive payments in aggregate of up to 30% of the performance fees received by the property management subsidiary from the funds in respect of a financial year. While awards are made annually, payments under the CAP are not made until the performance fees to which they relate cease to be subject to the risk of clawback. 80% of the cost of LTIP awards made to a participant in respect of any financial year are offset against the share of the performance fees awarded to such participant in that year. If the share of the performance fees is less than the amount of the LTIP award to be offset against it, the shortfall is carried forward to be offset against any subsequent award awarded to that participant under the CAP. The Remuneration Committee may also make awards under the CAP in respect of any fees payable to the property management subsidiary or any other group company following the formation of any new funds, on terms which are substantially the same as those in the management agreements.

Extension of the Plans

In accordance with the rules of the LTIP and the CAP the Remuneration Committee instructed Towers Perrin, independent consultants, to review the Plans. Having undertaken this review the Board considers that it is appropriate that the Plans should be extended, with the minor amendments set out below. In 2008 the Board expects to undertake a further review of the Plans and prior to the grant of any awards in respect of that year, the Company shall seek further approval by ordinary resolution of the members of the Company for an extension to the Plans.

Since establishing The Mall and The Junction Funds, their performance has exceeded expectation and CAP awards in respect of 2003 and 2004 have reflected this strong performance. The Board believes that the retention and motivation of key executives has been assisted by the operation of these schemes; and that, in turn, the excellent results for the Company are, to a material extent, derived from the capability of the key executives. The Board therefore believes that it is in the interest of shareholders to extend the Plans on the basis proposed below. This extension is set out under resolutions 12 and 13 which are proposed as ordinary resolutions.

Vesting of LTIP awards

The Board proposes amendments to the rules in relation to the vesting of the LTIP awards. At present vesting depends solely upon the Company's Post Tax Return on Equity, with a differential rate of vesting between 10% and 18%. Under the proposed rules from 2005 onwards, the vesting of 50% of an award will depend upon the Company's Post Tax Return on Equity (within the same range as before) and the other 50% will be linked to Total Shareholder Return ("TSR") over the three year performance period relative to the FTSE Real Estate Index whereby:

i) If TSR is below the median, no shares in an award will vest;
ii) If TSR is above the median, 25% of the shares comprised in an award will vest;
iii) If TSR is in the upper quartile, 100% of the shares comprised in an award will vest; and
iv) If TSR is between median and upper quartile, the shares will vest pro rata.

Under all circumstances, vesting under the TSR portion of the scheme will be conditional on Post Tax Return on Equity for the Company averaging 5% per annum or higher over the relevant three year performance period.

The Board considers that by amending the vesting rules in this way the participants will be subject to a more balanced measure of performance but one which is still sufficiently challenging to satisfy. Under resolution 14, which is proposed as an ordinary resolution, the directors seek authority to amend the rules relating to vesting of the LTIP award.

By order of the Board

F Desai
Company Secretary
28 April 2005

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 25 to 28 describe how the Company complies with the provisions of the July 2003 Financial Reporting Council Combined Code on Corporate Governance ("the Combined Code").

Statement of compliance

The Company has complied throughout the period ended 30 December 2004 with the provisions set out in Section 1 of the Combined Code issued by the Financial Reporting Council in July 2003.

Application of the principles

The Board of Directors

Details of the directors are set out on pages 22 and 23. The Company is controlled through the Board of Directors which comprises the Chairman, six executive and four non-executive directors, which provides an appropriate balance of power and authority within the Company. 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.

P Stobart was nominated as the senior independent director as required by the Combined Code for the period ended 30 December 2004, following the retirement of P Duffy in 2004.

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. In accordance with the Combined Code the Company considers all its non-executive directors are independent.

The Board has adopted a schedule of matters reserved for its decision and a schedule of matters delegated to committees, both of which are reviewed at least annually. The Board reserves approval for all significant or strategic decisions including major acquisitions, disposals and financing transactions. The directors are entitled to take independent professional advice as and when necessary.

The responsibilities, which the Board has delegated, are given to committees that operate within specified terms of reference and authority limits, which are reviewed annually or in response to a change in circumstances. An Executive Directors' Committee, comprising the six executives, 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 executive directors in attendance; if decisions are not unanimous the matter is referred to the Board for approval. Notes and action points from the Executive Directors' Committee meetings are circulated to the Board. The Audit Committee and Remuneration Committee, consist solely of non-executive directors and meet at least twice a year.

The Board schedules quarterly meetings each year, as a minimum, and arranges further meetings as the business requires. For each quarterly Board meeting, each member receives up-to-date financial and commercial information in respect of the three divisions prior to each meeting, in particular, management accounts budgets and forecasts, details of acquisitions and disposals and relevant appraisals (prior Board approval being required for large transactions) and cash flow forecasts and details of funding availability.

All members of the Board are subject to the re-election provisions in the Articles which require them to offer themselves for re-election at least once every three years and at the first Annual General Meeting ("AGM") after appointment, if appointed after the last AGM. Details of those directors offering themselves for re-appointment are set out in the directors' report on page 29.

A performance evaluation of the Board and the Committees was conducted for the period ended 30 December 2004. The Chairman's performance was evaluated by the senior non-executive director and the Chairman evaluated the performance of the remaining directors. Induction training is given to all new directors appointed in the Company and consists of an introduction to the Board, onsite visits to properties managed by the Group, introduction to the divisional teams, an induction pack and access to independent advisers. The ongoing training requirements of the directors are reviewed on a regular basis and undertaken individually, as necessary. The Company is finalising a formal ongoing training programme, although it is recognised that all members of the Board experience continuous professional development from working together. This is achieved by virtue of the dynamic and diverse mix of the Board members, their sharing of knowledge and experiences gained from a range of commercial backgrounds, and the complement of their personal attributes to the Board.

Nomination Committee

The committee comprises T Chandos (Chairman), P Stobart and M Barber. 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 Committee does not have the authority to appoint and agree terms and conditions with the candidates. On an annual basis the Nomination Committee also considers succession planning for the Board following the yearly performance evaluation process. The Board is given an opportunity to meet the individual concerned prior to any formal decision. During the period, a non-executive director, A Coppin, was appointed to the Board following a consultation process involving external consultants, Spencer Stuart. 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:

There were 13 full Board meetings during the period.

Board meetings	Attendance
T Chandos	13
M Barber	13
D Cherry	12
X Pullen	12
W Sunnucks	12
H Mautner	11
K Ford	10
PY Gerbeau	10
P Stobart	8
A Lewis-Pratt	7
P Duffy (retired 11 June 2004)	5
A Coppin (appointed 24 September 2004)	1

There were five Audit Committee meetings during the period. A Coppin was appointed to the Audit Committee after the period end.

Audit Committee meetings	Attendance
D Cherry	5
P Stobart	5
P Duffy (retired 11 June 2004)	1

There were five Remuneration Committee meetings during the period.

Remuneration Committee meetings	Attendance
P Stobart	5
D Cherry	5
H Mautner	5

There were three Nomination Committee meetings during the period.

Nomination Committee meetings	Attendance
T Chandos	3
M Barber	3
P Duffy (retired 11 June 2004)	0
P Stobart	3

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 25 to 28.

During the period the Remuneration Committee commissioned Towers Perrin, external remuneration consultants, to review and advise on the current executive incentive schemes operated by the Company. Towers Perrin had no other connection with the Company during the period.

Corporate governance report

Shareholder relations
The Company has always encouraged regular dialogue with its institutional shareholders and private investors at the AGM, and through corporate functions and property visits. In addition, following the announcement of preliminary and interim results, and throughout the year, as requested, the Company holds update meetings with institutional shareholders. All the directors are accessible to all shareholders, and queries received verbally or in writing are immediately addressed. The directors are introduced to shareholders at the AGM each year and the non-executive directors and committee chairmen are clearly identified.

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.

Accountability and audit
Financial reporting
The Company's annual report and accounts includes detailed reviews of the activities of each division, together with a detailed review of their 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 2004 financial year, to the date of approval of these financial statements. Each year the Board conducts a review of the effectiveness of the current system of internal control and updates the documentation of controls in place if needed.

The risks for each of the divisions in the Group (The Mall, Junction, Xscape/X-Leisure and Corporate) are classified into financial, administrative and compliance 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 regular reports from the Fund Manager of The Mall and The 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 external auditors and deals with any significant internal control matter. In the period under review the Committee met with the external auditors on five occasions and received a paper on the internal controls of the Company.

Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and Board's attention.

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. This has been reviewed in 2004 in light of the recommendations of the Combined Code, and it is still considered that the size of the Group does not currently warrant an internal audit function. This will remain under periodic review in 2005.

Audit Committee
The Audit Committee consists of three non-executive directors, P Stobart (Chairman), A Coppin and D Cherry, and the terms of reference of the Audit Committee are available for inspection at the Company's registered office. The role of the Audit Committee is to maintain a relationship with the Group's external auditors and to review, in depth, the Company's financial statements, internal financial control and risk management systems and circulars to shareholders in order to monitor financial integrity within the Group. 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 external auditors undertaking non-audit work, and details of fees paid to the Group's external auditors are detailed on page 47 in note 7 to the accounts. 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 Company's policy is that 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 reviews and makes recommendations to the Board for the re-appointment of the Group's external auditors. This was considered during the period. Meetings of the Audit Committee are held prior to Board meetings to consider the interim and annual results and on an ad hoc basis at other times during the period. During 2004, 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.

F Desai
Company Secretary
28 April 2005

Corporate social responsibility

Introduction

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 32 to 35. The Company's relationship with its key stakeholders, its shareholders, is noted on page 34.

Employees

The Company values the contribution of all its staff and is committed to a policy of equal opportunities for all its employees, regardless of sex, race or disability. 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 their potential and contribution.

The Company places considerable value on involving and consulting its employees, at all levels, in its affairs and has continued to keep them regularly and systematically informed on matters of concern that may affect them as employees, and on the financial and economic factors affecting the Company's performance. Consultations with employees or employee representatives are conducted on a regular basis so that their views can be considered when decisions are made which may affect their interests. The consultations are undertaken through 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. Each division has a nationally co-ordinated health and safety initiative that is contracted out and monitored by the facilities management team. Procedures are reviewed at monthly management meetings with centre management by the National Operations Team. 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.

During 2005, The Mall will be employing a national compliance manager to match growth requirements and to reflect the importance placed on health and safety by the Group. Within the X-Leisure division, a national facilities manager and centre manager are responsible for the implementation and monitoring of the health and safety programme on a daily basis and maintain a manual, made available to all employees, which is reviewed and updated regularly. In respect of the Junction division, responsibility for health and safety is undertaken by the occupiers and tenants.

Corporate social responsibility

The Company is committed to providing relevant information and necessary ongoing training to employees in respect of risks to health and safety appropriate to their activities in 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 recognised best practice standards, particularly in the areas of energy and its efficient use and impact on the environment, recycling practices, water management and minimisation of use.

During 2004, The Mall division participated in a national mall environmental benchmarking exercise with Upstream. The survey analyses the environmental performance of over 80 shopping centres in the areas of carbon dioxide emission, water consumption, waste production and recycling. The results of the survey revealed that, in comparison with other shopping mall operators, The Mall portfolio topped the benchmark. During 2005, The Mall will continue to minimise its impact on the environment as a shopping mall operator and will continue to benchmark its relative industry performance.

Across the X-Leisure spectrum we are committed to an energy saving and recycling programme. The consumption of electricity at the X-Leisure sites has been reduced through a number of measures, namely the removal of excessive lamping from luminaries in the service corridors, examining the potential for replacing high wattage dichroic halogen lamps with lesser-wattage rated lamps and improving the use and control of internal and external lighting through the use of daylight sensors. The sites are also looking into the replacement of convector heaters with infrared radiant plaque heaters.

X-Leisure is also endeavouring to increase the tonnage of recycled waste, this is done with support and interaction with the tenants. For example, in 2004 Xscape Milton Keynes recycled 76 tonnes of glass and 52 tonnes of cardboard. It is hoped that these figures will be increased in 2005.

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

The Company is committed to a process of 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 period 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 period ended 30 December 2004 which comprise the consolidated profit and loss account, the consolidated balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movements in equity shareholders' funds, the consolidated cash flow statement, the Company balance sheet and the related notes 1 to 37. 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 information and explanation 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 nine provisions of the July 2003 FRC 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 period as described in the contents section including the unaudited part of the directors' remuneration report and consider the implication 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 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 30 December 2004 and of the profit of the Group for the period 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

6 May 2005

Consolidated profit and loss account

For the period ended 30 December 2004

	Notes	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Turnover: Group income and share of joint ventures' turnover		**69,030**	44,010
Less: share of joint ventures' turnover		**(6,658)**	(4,554)
Group turnover	2	**62,372**	39,456
Cost of sales		**(7,008)**	(6,445)
Gross profit		**55,364**	33,011
Profit on sale of trading and development properties	3	**327**	25
Exceptional Group restructuring costs	4	**(1,994)**	–
Other administrative costs		**(27,923)**	(20,650)
Total administrative costs		**(29,917)**	(20,650)
Group operating profit		**25,774**	12,386
Share of operating profit in joint ventures and associates	19a	**30,574**	35,863
Total operating profit		**56,348**	48,249
Income from other fixed asset investments		**445**	–
(Loss)/profit on sale of investment properties and investments	3	**(1,771)**	5,242
Profit on sale of investment properties in associates and joint ventures		**13,779**	2,385
Profit on ordinary activities before interest		**68,801**	55,876
Interest receivable and similar income	5	**1,872**	1,142
Interest payable and similar charges – Group	6	**(7,389)**	(7,287)
– share of associates	6	**(21,533)**	(19,789)
– share of joint ventures	6	**(7,493)**	(3,595)
– exceptional premium paid on buy back of Convertible Unsecured Loan Stock	4,6	**(8,217)**	–
		(44,632)	(30,671)
Profit on ordinary activities before taxation	7	**26,041**	26,347
Taxation	11	**(5,852)**	(6,966)
Profit on ordinary activities after taxation and attributable to the shareholders of the Company		**20,189**	19,381
Equity dividends paid and payable	13	**(9,016)**	(5,602)
Profit retained in the period/year	29	**11,173**	13,779
Earnings per share – basic	14	**32.2p**	31.4p
Earnings per share – diluted	14	**28.4p**	27.3p

The results of the Group for the period related to continuing operations.

Consolidated balance sheet

As at 30 December 2004

	Notes	30 December 2004 £000	31 December 2003 £000
Fixed assets			
Intangible assets	15	**12,179**	14,540
Property assets	16	**82,938**	51,457
Other fixed assets	17	**12,500**	12,282
		107,617	78,279
Investment in joint ventures – share of gross assets		**150,644**	183,769
– share of gross liabilities		**(103,902)**	(127,277)
	19c	**46,742**	56,492
Investment in associates	19b	**477,092**	372,676
		631,451	507,447
Current assets			
Property assets	20	**8,314**	7,941
Debtors – amounts falling due after more than one year	21	**3,904**	274
– amounts falling due within one year	21	**46,350**	24,202
Cash at bank and in hand	22	**4,427**	4,475
		62,995	36,892
Creditors: Amounts falling due within one year	23	**(50,404)**	(37,232)
Net current assets/(liabilities)		**12,591**	(340)
Total assets less current liabilities		**644,042**	507,107
Creditors: Amounts falling due after more than one year (including convertible debt)	24	**(147,674)**	(137,780)
Provisions for liabilities and charges	27	**(1,831)**	(2,201)
Net assets	2	**494,537**	367,126
Capital and reserves			
Called-up share capital	28	**6,404**	6,311
Share premium account	29	**167,351**	165,574
Revaluation reserve	29	**247,197**	145,245
Other reserves	29	**1,145**	2,468
Profit and loss account	29	**72,440**	47,528
Equity shareholders' funds	29	**494,537**	367,126
Net assets per share	30	**793p**	591p
Adjusted fully diluted net assets per share	30	**710p**	521p

The financial statements were approved by the Board of Directors and signed on their behalf on 28 April 2005 by:

M Barber
W Sunnucks

Statement of total recognised gains and losses

For the period ended 30 December 2004

	Notes	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Profit before exceptional items		**36,252**	26,347
Exceptional items	4	**(10,211)**	–
Profit before tax		**26,041**	26,347
Movements in revaluation reserve – on investment properties	29	**16,371**	1,111
– on other fixed assets	29	**280**	(620)
– on properties held in joint ventures and associates	29	**105,358**	80,870
Gains on deemed disposals		**–**	4,498
Total gains before tax		**148,050**	112,206
Tax shown in profit and loss account	11	**(5,852)**	(6,966)
Tax on revaluation surplus realised		**(6,185)**	(3,651)
Total tax charge		**(12,037)**	(10,617)
Total recognised gains and losses for the period/year		**136,013**	101,589
Return on equity for the period/year	31	**37.0%**	37.6%
Return on equity before exceptional items for the period/year	31	**39.0%**	37.6%

Note of historical cost profits and losses

For the period ended 30 December 2004

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Reported profit on ordinary activities before taxation	**26,041**	26,347
Realisation of property revaluation surplus of previous years	**3,672**	7,866
Realisation of property revaluation surplus of previous years in joint ventures and associates	**17,326**	2,256
Historical cost profit on ordinary activities before taxation	**47,039**	36,469
Historical cost profit for period/year retained after taxation, minority interests and dividends	**25,986**	20,249

Reconciliation of movements in equity shareholders' funds

For the period ended 30 December 2004

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Profit for the period/year attributable to shareholders of the Company	**20,189**	19,381
Equity dividends paid and payable	**(9,016)**	(5,602)
Profit retained in the period/year	**11,173**	13,779
Other recognised gains and losses relating to period/year	**115,824**	82,208
Share capital and share premium issued in period/year (net of expenses)	**1,870**	2,958
Purchase of own shares	**(3,285)**	(3,341)
LTIP credit in respect of profit and loss charge	**1,829**	1,184
Net increase in equity shareholders' funds	**127,411**	96,788
Opening equity shareholders' funds	**367,126**	270,338
Closing equity shareholders' funds	**494,537**	367,126

Consolidated cash flow statement

For the period ended 30 December 2004

	Notes	**Period to 30 December 2004 £000**	Year to 31 December 2003 £000
Net cash inflow from operating activities	34a	**10,950**	28,947
Dividends received from joint ventures		**23,852**	350
Dividends received from associates		**9,137**	14,344
		43,939	43,641
Returns on investments and servicing of finance			
Dividends received from listed investments		**474**	–
Interest received		**362**	329
Interest paid		**(10,182)**	(8,813)
Loan arrangement costs		**–**	(382)
		(9,346)	(8,866)
		34,593	34,775
Taxation			
UK corporation tax paid		**(10,562)**	(6,432)
UK corporation tax recovered		**949**	936
		(9,613)	(5,496)
		24,980	29,279
Capital expenditure and financial investment			
Payments for – additions to investment properties		**(21,176)**	(42,312)
– additions to properties held as current assets		**(1,437)**	(822)
– additions to other tangible assets		**(300)**	(290)
Receipts from – sale of investment properties		**15,295**	52,158
– other asset sales		**–**	654
– repayment of loans by joint ventures		**15,375**	–
		7,757	9,388
		32,737	38,667
Acquisitions and disposals and exceptional item			
Additions to joint ventures and associates		**(20,278)**	(16,851)
Acquisitions		**–**	(31,357)
		(20,278)	(48,208)
		12,459	(9,541)
Equity dividends paid		**(6,226)**	(4,985)
Cash inflow/(outflow) before financing		**6,233**	(14,526)
Financing			
Issue of ordinary share capital		**1,870**	2,958
Purchase of own shares		**(3,285)**	(3,338)
Purchase of Convertible Unsecured Loan Stock		**(12,433)**	–
Bank loans received		**415,182**	79,972
Bank loans repaid		**(407,615)**	(64,750)
		(6,281)	14,842
(Decrease)/increase in cash	34b/c	**(48)**	316

Company balance sheet

As at 30 December 2004

	Notes	30 December 2004 £000	31 December 2003 £000
Fixed assets			
Other investments	18	**97,831**	126,313
Current assets			
Debtors – amounts falling due after more than one year	21	**13,500**	13,500
– amounts falling due within one year	21	**276,613**	252,088
Cash at bank and in hand		**560**	478
		290,673	266,066
Creditors: Amounts falling due within one year	23	**(104,860)**	(131,865)
Net current assets		**185,813**	134,201
Total assets less current liabilities		**283,644**	260,514
Creditors: Amounts falling due after more than one year (including convertible debt)	24	**(29,172)**	(34,997)
Net assets		**254,472**	225,517
Capital and reserves			
Called-up share capital	28	**6,404**	6,311
Share premium account	29	**167,411**	165,634
Other reserves	29	**4,289**	4,289
Profit and loss account	29	**76,368**	49,283
Equity shareholders' funds	29	**254,472**	225,517

The financial statements were approved by the Board of Directors and signed on their behalf on 28 April 2005 by:

M Barber
W Sunnucks

Notes to the accounts

For the period ended 30 December 2004

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable UK law and 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, using the following principal accounting policies. These have been applied consistently. These financial statements have been prepared for the period ended 30 December 2004. The directors do not believe there has been a material effect on profit from the change in year end.

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 period ended 30 December 2004. 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

Goodwill, being the difference between the cost of businesses acquired and the fair value of their separate net assets, is included in the balance sheet as an intangible asset and is amortised over its useful economic life. Goodwill is amortised over 12½ years, on a straight-line basis.

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.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

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

Long leasehold buildings	– over 50 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 considered 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.

Owner occupied long leasehold properties

Owner occupied long leasehold properties are included in the financial statement 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 considered to be permanent are charged to the profit and loss account.

The Group's policy is to value owner occupied long leasehold 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.

Notes to the accounts

1 Accounting policies (continued)

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.

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
Lease incentives which enhance the property are added to the cost of properties. Where a lease incentive does not enhance the property, it is amortised over the period to the earlier of the first rent review, the first break option, or the end of the lease term. On new leases with rent-free periods, rental income is allocated evenly over the period from the date of the lease commencement to the date of the first rent review.

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.

Current taxation
Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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.

1 Accounting policies (continued)

Own shares

In accordance with UITF 38, "Accounting for ESOP trusts" 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.

Performance fees

Performance fees relating to the performance period 1 January 2002 to 30 December 2004 have been credited to the profit and loss account for the current year, and will be received on 1 December 2005.

2 Segmental analysis

	Property management £000	Property investment £000	Ski slope business £000	Exceptional items £000	**Period to 30 December 2004 Total £000**	*Year to 31 December 2003 Total £000*
Asset management fees	19,312				**19,312**	*15,757*
Performance fees	31,220				**31,220**	*13,292*
Ski slope income			8,958		**8,958**	*5,546*
Rental and other income		2,882			**2,882**	*4,861*
Group turnover	**50,532**	**2,882**	**8,958**		**62,372**	*39,456*
Share of joint ventures' and associates' operating profit		30,574			**30,574**	*35,863*
Direct expenses		526	(7,534)		**(7,008)**	*(6,445)*
Net interest payable – non recourse		(27,516)			**(27,516)**	*(22,545)*
– own borrowings (net)		(7,027)		(8,217)	**(15,244)**	*(6,984)*
Amortisation of goodwill	(1,151)				**(1,151)**	*(1,162)*
Fixed management expense	(10,607)	(2,868)	(247)		**(13,722)**	*(11,779)*
Variable management expense	(11,821)	(1,126)	(103)	(1,994)	**(15,044)**	*(7,709)*
Profit on disposals/investments (net)		12,780			**12,780**	*7,652*
Profit before taxation	26,953	8,225	1,074	(10,211)	**26,041**	*26,347*
Revaluation surplus		122,009			**122,009**	*85,859*
Taxation	(8,086)	(6,692)	(322)	3,063	**(12,037)**	*(10,617)*
Total return	18,867	123,542	752	(7,148)	**136,013**	*101,589*
Net assets	38,778	453,572	2,187	–	**494,537**	*367,126*
2003						
Group turnover	*29,049*	*4,861*	*5,546*			*39,456*
Profit before taxation	*12,276*	*13,932*	*139*			*26,347*
Total return	*8,503*	*92,989*	*97*			*101,589*
Net assets at 31 December 2003	*25,216*	*341,212*	*698*			*367,126*

Turnover, profit on ordinary activities before taxation and net assets all arise in the UK.

3 Asset sales

	Fixed assets		Current assets	
	Period to 30 December 2004 £000	Year to 31 December 2003 £000	**Period to 30 December 2004 £000**	Year to 31 December 2003 £000
Net sale proceeds	**15,273**	51,205	**–**	129
Cost of sales	**(16,923)**	(35,840)	**327**	(104)
Historical cost (loss)/profit	**(1,650)**	15,365	**327**	25
Revaluation (deficit)/surplus	**(121)**	(10,123)	**–**	–
(Loss)/profit recognised on sale of assets	**(1,771)**	5,242	**327**	25

4 Exceptional items

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Exceptional Group restructuring costs	**1,994**	–
Exceptional premium paid on buy back of CULS	**8,217**	–
Total exceptional items	**10,211**	–

5 Interest receivable and similar income

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Bank interest	**257**	135
Other interest	**105**	168
	362	303
Share of joint ventures and associates	**1,510**	839
	1,872	1,142

6 Interest payable and similar charges

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Bank loans and overdrafts wholly repayable within five years	**7,342**	6,479
Other loans	**1,612**	1,754
	8,954	8,233
Capitalised during the period/year	**(1,565)**	(946)
	7,389	7,287
Exceptional premium paid on buy back of CULS	**8,217**	–
Share of joint ventures	**7,493**	3,595
Share of associates	**21,533**	19,789
	44,632	30,671

The interest charge includes £275,000 (2003: £257,000) of loan arrangement costs amortised during the period/year.

7 Profit on ordinary activities before taxation

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
This is arrived at after charging:		
Profit on disposal of other fixed assets	**–**	(7)
Depreciation – owned assets	**384**	425
Amortisation of short leasehold properties	**268**	203
Amortisation of intangible assets	**1,151**	1,162
Amortisation of negative goodwill	**(22)**	(107)
Auditors' remuneration – audit services (see below)	**190**	166
Operating lease rentals for land and buildings	**300**	357
Operating lease rentals for plant and machinery	**363**	96

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

	2004 £000	2003 £000
General taxation advice	**73**	115
Other services	**99**	169
	172	284

The auditors' remuneration for the Group includes £8,000 (2003: £8,000) in respect of the parent company.

Other services include RICS compliance work, and general accounting advice.

8 Performance fees

The Group is entitled to earn performance fees under its management contracts with The Mall, The Junction and X-Leisure Funds.

These fees are dependent upon performance during the previous three-year period. Thus the 2004 performance will have an impact on the performance fees earned in 2005 and 2006.

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

Notes to the accounts

9 Employee information

The monthly average number of persons, including directors, employed by the Group during the period/year was as follows:

	Average number of employees Period to 30 December 2004	Year to 31 December 2003
Central management	**120**	111
Ski slope business	**189**	118
Direct property services	**1**	2
	310	231

In addition, 295 people were employed by a third party and worked at the shopping and leisure centres managed by the Group (2003: 268). Their costs are recharged directly to tenants and excluded from the figures above.

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Staff costs (including directors) consist of:		
Salaries	**10,240**	8,700
Discretionary bonuses and letting commissions	**3,563**	3,268
Total salaries	**13,803**	11,968
Social security costs	**2,675**	1,244
Other pension costs	**123**	154
	16,601	13,366

10 Directors' emoluments

Details of directors' remuneration by director, 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 25 to 28.

11 Taxation

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Current tax		
UK corporation tax (at 30%)	**7,369**	6,330
Prior year	**(1,147)**	832
Total current tax	**6,222**	7,162
Deferred tax		
Origination and reversal of timing differences	**(370)**	(196)
Total taxation	**5,852**	6,966
Tax reconciliation		
Group profit on ordinary activities	**26,041**	26,347
Tax on profit on ordinary activities at UK corporation tax rate of 30%	**7,812**	7,904
Effects of – timing differences	**3,682**	–
– capital allowances	**(1,403)**	(984)
– utilisation of tax losses	**(3,342)**	605
– tax on revaluation gains	**(725)**	(937)
– expenses not deductible for tax purposes	**1,345**	(258)
– adjustment in respect of prior years	**(1,147)**	832
Total current tax	**6,222**	7,162

Taxation recognised in the STRGL (see page 40)

The tax on revaluation surplus recognised of £6,185,000 (2003: £3,651,000) is in relation to gains arising in respect of prior year revaluations realised on disposals.

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 £4,200,000 (2003: £31,804,000), see note 27.

12 Profit of the holding company

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. The retained profit dealt within the accounts of the holding company for the period was £27,085,000 (2003: £10,643,000).

13 Equity dividends paid and payable

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Interim of 5p per share paid on 15 October 2004 (2003: 4p per share)	**3,116**	2,505
Proposed final of 9p per share payable on 20 June 2005 (2003: 5p per share)	**5,900**	3,097
	9,016	5,602

14 Earnings per share

	Period to 30 December 2004		
	Earnings £000	**Number of shares**	**Earnings per share**
Basic	**20,189**	**62,727,988**	**32.2p**
Exercise of share options	**–**	**625,543**	
Conversion of Convertible Unsecured Loan Stock	**1,250**	**12,183,118**	
Diluted	**21,439**	**75,536,649**	**28.4p**

	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

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.

15 Intangible assets

	Goodwill £000
Cost	
As at 1 January 2004	15,702
Reassessment of fair value	(1,210)
As at 30 December 2004	14,492
Amortisation	
As at 1 January 2004	1,162
Charge for the period	1,151
As at 30 December 2004	2,313
Net book value	
As at 30 December 2004	**12,179**
As at 1 January 2004	14,540

In the period the Group received £1,210,000 of deferred fees from the X-Leisure Fund. These were attributed a fair value of £nil at the time of acquisition.

16 Property assets

	Freehold properties £000	Investment properties Leasehold properties £000	Total £000
Group			
Cost or valuation:			
As at 1 January 2004	1,692	49,765	51,457
Additions	–	30,215	30,215
Amortisation of short leasehold properties	–	(268)	(268)
Disposals	(482)	(14,355)	(14,837)
Revaluation	–	16,371	16,371
As at 30 December 2004	**1,210**	**81,728**	**82,938**
The period-end balance is analysed as follows:			
Historical cost	1,045	65,966	67,011
Revaluation surplus	165	15,762	15,927

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

	2004 £000	2003 £000
The period-end balance for leasehold properties is analysed as follows:		
Leasehold with more than 50 years to run	**77,188**	45,125
Leasehold with between 20 and 50 years to run	**–**	1,300
Leasehold with less than 20 years to run	**4,540**	3,340
	81,728	49,765

The net book value of property assets includes £2,281,000 (2003: £800,000) in respect of capitalised interest.

Notes to the accounts

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 1 January 2004	12,120	1,843	41	(223)	13,781
Additions	–	295	6	–	301
Disposals	–	(119)	–	–	(119)
Revaluation	280	–	–	–	280
As at 30 December 2004	12,400	2,019	47	(223)	14,243
Depreciation					
As at 1 January 2004	320	1,367	13	(201)	1,499
Provided for period	80	292	12	(22)	362
Disposals	–	(118)	–	–	(118)
As at 30 December 2004	400	1,541	25	(223)	1,743
Net book values:					
As at 30 December 2004	**12,000**	**478**	**22**	**–**	**12,500**
As at 31 December 2003	11,800	476	28	(22)	12,282

The negative goodwill arose from the acquisition of the minority interest in Easter Capital Investment Holdings Limited. 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 30 December 2004. 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 (2003: £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 1 January 2004	126,313
Additions	918
Write-down in value of investments	(29,400)
As at 30 December 2004	**97,831**

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

Acquisition of subsidiary undertakings

On 24 March 2004 the Group, through one of its subsidiary undertakings, acquired 50% of the issued share capital of PPCR Investments Limited (formerly Marconi Communications Overseas Services Limited) for consideration of £700,000, paid in cash. The fair value of the net assets acquired was £50. The difference of £699,950 has been expensed through the profit and loss account.

On 30 November 2004 the Group, through one of its subsidiary undertakings, acquired 100% of the issued share capital of Ambarella Limited for consideration of £250,000, paid in cash. The fair value of the net assets acquired was £1. The difference of £249,999 has been expensed through the profit and loss account.

19a Associates and joint ventures

Share of operating profit	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Associates	**26,181**	32,256
Joint ventures	**4,393**	3,607
	30,574	35,863

19b Investment in associates

	2004 £000	2003 £000
At the beginning of the period/year	**372,676**	286,367
Subscription for partnership capital and advances	**4,222**	19,012
Dividends and capital distributions receivable	**(4,232)**	(15,608)
Share of results (see below)	**5,995**	15,527
Share of property revaluation surplus (see below)	**97,358**	62,752
Share of fair value adjustments upon restructuring	**1,073**	–
Realised profit on disposals to associates	**–**	128
Unrealised gain from deemed disposal	**–**	4,498
At the end of the period/year	**477,092**	372,676

19b Investment in associates (continued)

Analysis of investment in associates:	The Mall LP £000	The Junction LP £000	X-Leisure* LPs £000	**Total to 30 December 2004 £000**	Total to 31 December 2003 £000
Profit and loss account (100%)					
Turnover	120,852	33,498	38,994	**193,344**	155,620
Property expenses	(19,335)	(1,458)	(3,890)	**(24,683)**	(17,545)
Net rental income	101,517	32,040	35,104	**168,661**	138,075
Fund and property management expenses	(9,454)	(5,395)	(3,603)	**(18,452)**	(13,291)
Performance fee	(31,507)	(10,236)	(1,372)	**(43,115)**	(17,931)
Administrative expenses	(3,311)	(1,838)	(169)	**(5,318)**	(4,974)
Share of joint ventures' operating profit	–	3,222	–	**3,222**	3,105
Operating profit	57,245	17,793	29,960	**104,998**	104,984
Sale of investment properties	–	–	–	**–**	8,158
Net interest payable	(39,563)	(19,972)	(22,371)	**(81,906)**	(67,388)
Profit/(loss) before and after tax	17,682	(2,179)	7,589	**23,092**	45,754
Balance sheet (100%)					
Investment properties and joint ventures	2,094,942	999,082	596,630	**3,690,654**	2,485,006
Current assets	103,115	64,585	28,696	**196,396**	151,687
Current liabilities	(106,611)	(26,400)	(358,586)	**(491,597)**	(147,218)
Borrowing due in more than one year	(1,022,025)	(462,479)	(58,811)	**(1,543,315)**	(1,202,086)
Net assets (100%)	1,069,421	574,788	207,929	**1,852,138**	1,287,389
C&R interest at end of period	27.86%	27.32%	10.77%		
C&R interest at start of period	34.77%	28.37%	13.29%		
			5.72%		
			7.09%		
Group share of					
Turnover	37,412	9,473	4,200	**51,085**	50,438
Operating profit	17,721	5,233	3,227	**26,181**	32,256
Sale of investment properties	–			**–**	2,278
Net interest payable	(12,247)	(5,530)	(2,409)	**(20,186)**	(19,007)
Profit/(loss) before and after tax	5,474	(297)	818	**5,995**	15,527
Revaluation surplus for the period/year	53,040	41,754	2,564	**97,358**	62,752
Investment properties and joint ventures	583,651	272,949	64,257	**920,857**	683,135
Current assets	28,728	17,645	3,415	**49,788**	41,938
Current liabilities	(29,701)	(7,213)	(38,944)	**(75,858)**	(35,186)
Borrowing due in more than one year	(284,736)	(126,349)	(6,334)	**(417,419)**	(316,917)
Associate net assets	297,942	157,032	22,394	**477,368**	372,970
Unrealised profit on sale of property to associate	(276)	–	–	**(276)**	(294)
Group share of associate net assets	297,666	157,032	22,394	**477,092**	372,676

* On 17 March 2004, the three X-Leisure funds were consolidated into one umbrella fund. Capital & Regional's share of the new umbrella fund was 10.77%.

19c Investment in joint ventures

	2004 £000	2003 £000
At the beginning of the period/year	**56,492**	24,689
Subscription for partnership capital and advances	**11,189**	13,698
Dividends and capital distributions receivable	**(39,082)**	(350)
Share of results (see below)	**10,843**	176
Share of taxation and minority interests	**(700)**	161
Share of property revaluation surplus (see below)	**8,000**	18,118
At the end of the period/year	**46,742**	56,492

19c Investment in joint ventures (continued)

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 30 December 2004 £000**	Total to 31 December 2003 £000
Profit and loss account (100%)							
Turnover	4,012	2,023	910	5,696	–	**12,641**	8,788
Property expenses	(514)	(1,176)	(675)	(910)	(661)	**(3,936)**	(1,446)
Net rental income	3,498	847	235	4,786	(661)	**8,705**	7,342
Fund and property management expenses	(100)	(100)	–	–	–	**(200)**	(125)
Administrative expenses	(31)	(17)	(15)	(109)	–	**(172)**	(241)
Operating profit/(loss)	3,367	730	220	4,677	(661)	**8,333**	6,976
Sale of investment properties	–	–	27,539	–	16	**27,555**	214
Net interest (payable)/receivable	(3,212)	(3,115)	(3,773)	(3,618)	103	**(13,615)**	(6,848)
Profit/(loss) before tax	155	(2,385)	23,986	1,059	(542)	**22,273**	342
Tax	–	–	–	–	(1,400)	**(1,400)**	–
Profit/(loss) after tax	155	(2,385)	23,986	1,059	(1,942)	**20,873**	342
Balance sheet (100%)							
Investment properties	84,061	65,389	–	–	11,630	**161,080**	253,870
Current assets	3,444	5,083	29,146	77,243	1,754	**116,670**	91,394
Current liabilities	(3,161)	(3,570)	(20,043)	(3,294)	(4,199)	**(34,267)**	(65,665)
Borrowing due in more than one year	(46,800)	(47,915)	–	(62,500)	–	**(157,215)**	(160,090)
Net assets (100%)	37,544	18,987	9,103	11,449	9,185	**86,268**	119,509
C&R interest at start and end of period	50%	66.7%	50%	50%			
Group share of							
Turnover	2,006	1,349	455	2,848	–	**6,658**	4,554
Operating profit/(loss)	1,683	487	110	2,338	(225)	**4,393**	3,607
Sale of investment properties	–	–	13,770	–	8	**13,778**	107
Net interest (payable)/receivable	(1,606)	(2,077)	(1,886)	(1,809)	50	**(7,328)**	(3,538)
Profit/(loss) before tax	77	(1,590)	11,994	529	(167)	**10,843**	176
Tax	–	–	–	–	(700)	**(700)**	–
Profit/(loss) after tax	77	(1,590)	11,994	529	(867)	**10,143**	176
Revaluation surplus for the period/year	4,021	3,979	–	–	–	**8,000**	18,118
Investment properties	42,031	43,614	–	–	5,815	**91,460**	136,910
Current assets	1,722	3,390	14,573	38,622	877	**59,184**	46,891
Current liabilities	(1,581)	(2,388)	(10,022)	(1,469)	(1,833)	**(17,293)**	(39,517)
Borrowing due in more than one year	(23,400)	(31,959)	–	(31,250)	–	**(86,609)**	(87,792)
Group share of joint venture net assets	18,772	12,657	4,551	5,903	4,859	**46,742**	56,492

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 plc has a 66.7% share in the Xscape Castleford Partnership. The investment is accounted for as a joint venture, rather than a subsidiary, as a result of joint control and the deadlock agreements that are in place.

20 Current property assets

	Group 2004 £000	Group 2003 £000
Properties held for disposal	**8,311**	7,765
Properties under development	**3**	176
	8,314	7,941

The net book value of current property assets includes £384,000 (2003: £384,000) in respect of capitalised interest.

21 Debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Amounts falling due after more than one year				
Amounts owed by subsidiaries	**–**	–	**13,500**	13,500
Prepayments	**3,904**	274	**–**	–
	3,904	274	**13,500**	13,500
Amounts falling due within one year				
Trade debtors	**1,838**	1,068	**–**	–
Amounts owed by subsidiaries	**–**	–	**274,806**	233,249
Amounts owed by joint ventures	**376**	218	**42**	–
Amounts owed by associates	**36,908**	15,136	**–**	–
Other debtors	**1,586**	329	**–**	13
Tax recoverable	**1,881**	1,088	**–**	–
Prepayments and accrued income	**3,761**	6,363	**1,765**	18,826
	46,350	24,202	**276,613**	252,088

22 Cash at bank and in hand

Cash at bank includes £212,000 (2003: £616,000) 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 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Bank loans (secured)	**109**	105	**109**	105
Amounts owed to subsidiaries	**–**	–	**98,288**	128,501
Amounts owed to joint ventures	**22**	–	**–**	–
Trade creditors	**1,494**	1,983	**106**	13
Other creditors	**3,306**	2,647	**342**	34
Corporation tax	**12,158**	8,828	**–**	–
Other taxation and social security	**3,373**	1,019	**14**	–
Accruals and deferred income	**24,042**	19,553	**101**	103
Proposed dividends	**5,900**	3,097	**5,900**	3,109
	50,404	37,232	**104,860**	131,865

24 Creditors: Amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Bank loans (secured) (see note 26)	**118,039**	110,472	**8,800**	10,500
Unamortised issue costs	**(195)**	(385)	**–**	–
	117,844	110,087	**8,800**	10,500
Convertible loan stock (unsecured) (see note 25)	**20,426**	24,642	**20,426**	24,642
Unamortised issue costs	**(54)**	(145)	**(54)**	(145)
	20,372	24,497	**20,372**	24,497
Other creditors	**9,458**	3,196	**–**	–
	147,674	137,780	**29,172**	34,997

25 Convertible Subordinated Unsecured Loan Stock

	Group and Company 2004 £000	Group and Company 2003 £000
At beginning of the period/year	**24,642**	24,642
CULS purchased and cancelled in the period/year	**(4,216)**	–
	20,426	24,642
Unamortised loan issue costs due after one year	**(54)**	(145)
	20,372	24,497
Unamortised loan issue costs due within one year	**(91)**	(91)
	20,281	24,406

The Convertible Subordinated Unsecured Loan Stock ("CULS") may be converted by the holders of the stock into 51.42 (2003: 51.42) ordinary shares per £100 nominal value CULS in any of the years 1997 to 2015 inclusive, representing a conversion price of 194p (2003: 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 30 December in each year.

In accordance with FRS 4 "Financial instruments" the CULS are shown net of its unamortised loan issue costs.

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 £4,427,000 (2003: £4,475,000). 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:

	2004 £000	Weighted average interest rate	Weighted average period Years	2003 £000	Weighted average interest rate	Weighted average period Years
CULS	**20,426**	6.75%	11.4	24,642	6.75%	12.3
Fixed and swapped bank loans	**79,250**	5.27%	2.5	71,000	5.23%	3.5
Variable rate bank loans	**38,989**	5.99%	n/a	39,672	5.05%	n/a
Group borrowings on balance sheet	**138,665**	5.69%		135,314	5.46%	

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

The bank loans are repayable as follows:

	2004 £000	2003 £000
Aggregate amount repayable:		
Between one and two years	**–**	1,500
Between two and five years	**118,039**	108,972
Total loans due after more than one year	**118,039**	110,472
Loans due in one year or less or on demand	**200**	200
Total loans	**118,239**	110,672

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

A valuation was carried out by JC Rathbone Associates Limited as at 30 December 2004 and 31 December 2003 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 and debt instruments, its share of those in joint ventures and associates.

	Book value £000	Fair value £000	**Fair value adjustment 2004 £000**	Fair value adjustment 2003 £000
CULS	20,281	20,281	**–**	–
Fixed and swapped loans – on balance sheet	79,250	78,008	**1,242**	1,648
– Group share of associates	309,204	310,014	**(810)**	517
– Group share of joint ventures	76,483	76,593	**(110)**	618
Total interest rate swaps	485,218	484,896	**322**	2,783
Net of tax at 30% (2003: 30%)			**225**	1,948

The fair value attributed to the CULS represents the debt only element of the financial instrument.

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

At 30 December 2004 the Group had undrawn facilities of £53.5 million (31 December 2003: £52 million), which expire in February 2009.

Notes to the accounts

27 Provision for liabilities and charges

Deferred taxation

The amounts of deferred taxation provided and not provided in the accounts are as follows:

Group	Provided 2004 £000	Provided 2003 £000	Not provided 2004 £000	Not provided 2003 £000
Tax on capital gains if investment assets were sold at their current valuation	**–**	–	**4,200**	31,804
Accelerated capital allowances and other timing differences	**1,831**	2,201	**–**	–
	1,831	2,201	**4,200**	31,804

The movement in provided deferred taxation has been credited to the profit and loss account in the period.

During the period, a significant part of the Group's property interests were 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 deferred tax liability in the accounts at 31 December 2003 in relation to these assets was £32.2 million.

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 7p (2003: 51p) and on fully diluted net assets per share of 6p (2003: 41p).

28 Called up share capital

	Number of shares issued and fully paid		Nominal value of shares issued and fully paid	
	2004 Number	2003 Number	**2004 £000**	2003 £000
Ordinary shares of 10p each				
At beginning of period/year	**63,112,003**	61,746,441	**6,311**	6,175
Issued on exercise of share options	**927,575**	1,365,562	**93**	136
At end of period/year	**64,039,578**	63,112,003	**6,404**	6,311

	Authorised	
	2004	2003
Ordinary shares of 10p each	**150,000,000**	150,000,000

At 30 December 2004, 1,688,411 (2003: 1,024,000) shares were held by the Company. The rights to dividends on these shares has been waived.

Since the period end 3,200,000 new shares have been issued (see note 37).

The options to subscribe for new ordinary shares of 10p each under the share option schemes that were outstanding at 30 December 2004 are as follows:

	30 December 2004	
	Number of shares	**Subscription price**
Period within which options are exercisable:		
18 June 2000 to 18 June 2007	**13,151**	**226.4p**
15 May 2001 to 15 May 2008	**399,500**	**279.5p**
22 May 2001 to 22 May 2008	**10,470**	**286.5p**
23 February 2002 to 23 February 2009	**178,950**	**191.5p**
22 February 2003 to 22 February 2010	**30,000**	**201.5p**
13 September 2003 to 13 September 2010	**150,000**	**211.5p**
	782,071	

29 Reserves

Group	Share capital £000	Share premium account £000	Property revaluation reserve £000	Other reserves: Capital redemption reserve £000	Other reserves: Own shares £000	Profit and loss account £000	Total £000
As at 1 January 2004	6,311	165,574	145,245	4,289	(1,821)	47,528	367,126
Issue of share capital	93	1,777	–	–	–	–	1,870
Revaluation of investment properties and other fixed assets	–	–	16,651	–	–	–	16,651
Share of revaluation surplus of joint ventures and associates	–	–	105,358	–	–	–	105,358
Realisation of surplus on disposal of joint venture investment properties and dilution of interest in associates	–	–	(20,998)	–	–	20,998	–
Permanent diminution of investment properties	–	–	941	–	–	(941)	–
Tax on revaluation surpluses realised in the period	–	–	–	–	–	(6,185)	(6,185)
Purchase of own shares	–	–	–	–	(3,285)	–	(3,285)
Credit in respect of LTIP charge	–	–	–	–	–	1,829	1,829
Amortisation of cost of own shares	–	–	–	–	1,962	(1,962)	–
Profit retained in the period	–	–	–	–	–	11,173	11,173
As at 30 December 2004	**6,404**	**167,351**	**247,197**	**4,289**	**(3,144)**	**72,440**	**494,537**
Company							
As at 1 January 2004	6,311	165,634	–	4,289	–	49,283	225,517
Issue of share capital	93	1,777	–	–	–	–	1,870
Profit retained in the period	–	–	–	–	–	27,085	27,085
As at 30 December 2004	**6,404**	**167,411**	**–**	**4,289**	**–**	**76,368**	**254,472**

30 Net assets per share

Group	Net assets £000	Number of shares	Net assets per share
	As at 30 December 2004		
As per the balance sheet	**494,537**	**64,039,578**	
Own shares held	**–**	**(1,688,411)**	
Net assets per share	**494,537**	**62,351,167**	**793p**
Conversion of CULS (net of unamortised issue costs)	**20,281**	**10,503,109**	
Exercise of share options	**1,897**	**782,071**	
Capital allowances deferred tax provision	**5,807**	**–**	
Adjusted fully diluted	**522,522**	**73,636,347**	**710p**

	Net assets £000	Number of shares	Net assets per share
	As at 31 December 2003		
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

Net assets per share are shareholders' funds divided by the number of shares held by shareholders at the period 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

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Total recognised gains and losses	**136,013**	101,589
Opening equity shareholders' funds	**367,126**	270,338
Return on equity	**37.0%**	37.6%
Exceptional items (net of tax at 30%)	**7,148**	–
Total recognised gains and losses before exceptional items	**143,161**	101,589
Return on equity before exceptional items	**39.0%**	37.6%

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.

32 Valuations

The properties were valued at 30 December 2004, as follows:

	Valuer	Basis of valuation	£000
Group properties			
	DTZ Debenham Tie Leung	Market value	4,540
	CB Richard Ellis Limited	Market value	990
	Directors' valuations	Market value	220
	King Sturge	Market value	82,340
			88,090
Less: unamortised tenant incentives			(5,152)
Total fixed property assets (as per balance sheet)			82,938
Other fixed assets	DTZ Debenham Tie Leung	Market value	12,000
Total property assets			94,938
Properties held by joint ventures			
Xscape Milton Keynes Partnership	DTZ Debenham Tie Leung	Market value	84,500
Xscape Castleford Partnership	DTZ Debenham Tie Leung	Market value	68,500
Properties held by associates			
The Mall Limited Partnership	DTZ Debenham Tie Leung	Market value	2,099,000
The Junction Limited Partnership	King Sturge	Market value	1,010,000
X-Leisure Limited Partnership	Jones Lang LaSalle	Market value	597,000

The independent property valuations as at 30 December 2004, 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 Jones Lang LaSalle, 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 Commitments

Annual commitments under non-cancellable operating leases which expire:	Land and buildings		Other operating leases	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Within one year	**–**	–	**129**	80
Between two and five years	**–**	–	**184**	–
After five years	**300**	266	**–**	–
	300	266	**313**	80

As at 30 December 2004 the Group had capital commitments of £nil (2003: £19,359,000).

34 Notes to the cash flow statement

a) Net cash inflow from operating activities

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
Group operating profit	**25,774**	12,388
(Profit) on the sale of the trading and development properties	**(327)**	(25)
	25,447	12,363
Depreciation of other fixed assets	**384**	425
Amortisation of short leasehold properties	**268**	203
Amortisation of tenant incentives	**(763)**	(144)
Amortisation of goodwill	**1,151**	1,162
Loss/(profit) on disposal of fixed assets	**1**	(6)
(Increase)/decrease in debtors	**(29,538)**	3,144
Increase in creditors	**12,169**	10,616
Non-cash movement relating to LTIP	**1,831**	1,184
Net cash inflow from operating activities	**10,950**	28,947

b) Reconciliation of net cash flow movement in net debt

	Period to 30 December 2004 £000	Year to 31 December 2003 £000
(Decrease)/increase in cash in period/year	**(48)**	316
Cash inflow from increase in debt financing	**(3,351)**	(15,222)
Change in net debt resulting from cash flows	**(3,399)**	(14,906)
Net debt at beginning of period/year	**(130,839)**	(115,933)
Net debt at end of period/year	**(134,238)**	(130,839)

c) Analysis of net debt

	At 31 December 2003 £000	Cash flows £000	At 30 December 2004 £000
Cash in hand and at bank	4,475	(48)	**4,427**
Debt due within one year	(200)	–	**(200)**
Debt due after one year	(110,472)	(7,567)	**(118,039)**
Convertible Unsecured Loan Stock	(24,642)	4,216	**(20,426)**
Total	(130,839)	(3,399)	**(134,238)**

35 Related party transactions

The Group's principal transactions with related parties, as defined by Financial Reporting Standard No. 8 "Related party transactions", are summarised below:

During 2004 the Group received management and performance fees totalling £11,762,000 from The Junction Limited Partnership (2003: £6,454,000). As at 30 December 2004 £8,085,000 (2003: £2,871,000) was outstanding in respect of these fees.

During 2004, the Group received management fees from Auchinlea Partnership of £216,000 (2003: £337,000). As at 30 December 2004 (£21,000) (2003: £nil) was (owed)/outstanding in respect of these fees.

During 2004 the Group received management and performance fees totalling £32,370,000 (2003: £18,225,000) from The Mall Limited Partnership. As at 30 December 2004 £25,786,000 (2003: £11,712,000) was outstanding in respect of these fees.

During 2004 the Group received management and performance fees totalling £4,850,000 (2003: £3,568,000) from The X-Leisure Limited Partnership. As at 30 December 2004 £3,095,000 (2003: £66,000) was outstanding in respect of these fees and deferred fees of £nil (2003: £1,681,000) were also outstanding.

During 2004 the Group received management fees from Xscape Milton Keynes Partnership of £378,000 (2003: £185,000) and Xscape Castleford Partnership of £257,000 (2003: £180,000). As at 30 December 2004 £94,000 (2003: £81,000) and £141,000 (2003: £112,000) respectively was outstanding in respect of these fees.

During 2004 the Group received management fees from Xscape Braehead Partnership of £145,000 (2003: £nil). As at 30 December 2004 £86,000 (2003; £nil) was outstanding in respect of these fees.

All the above transactions occurred at normal commercial rates.

Other related party transactions

During 2003 and 2004 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 and 2004 Cine UK Limited leased five of the Group's properties on normal commercial terms. Tom Chandos was a director and shareholder of Cine UK Limited until October 2004. Martin Barber was a shareholder of Cine UK Limited until October 2004.

During 2003 and 2004 the Group employed gcg hudson sandler for financial PR and corporate communications on normal commercial terms. Tom Chandos was a Director of gcg hudson sandler until June 2004.

Notes to the accounts

36 Subsidiary joint venture and associated undertakings at 30 December 2004

Principal subsidiaries, joint ventures and associated companies	Nature of property business	Group effective share of business
Capital & Regional Property Management Limited	Management	100%
The Mall Jersey Property Unit Trust	Investment	27.86%
The Junction Jersey Property Unit Trust	Investment	27.32%
X-Leisure Jersey Property Unit Trust	Investment	10.77%
The Auchinlea Partnership	Investment	50%
Xscape Castleford Jersey Property Unit Trust	Investment and management	66.7%
Xscape Milton Keynes Jersey Property Unit Trust	Investment and management	50%
Swansea Retail Park Limited	Investment and management	100%
Snozone Limited	Trading	100%
Morrison Merlin Limited	Trading	50%
Xscape Braehead Partnership	Development	50%

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

The Company has taken advantage of S231(5) and (6) 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.

37 Post balance sheet events

Since the period end the Company has purchased for cancellation a further £8,985,000 in nominal value of its Convertible Unsecured Loan Stock (CULS) for a total cost of £33,129,845. The Company has also issued a further 3,200,000 ordinary shares, the proceeds of which have been used to pay down debt and strengthen the Company's position for further repurchases of CULS in 2005.

Since the period end the Mall Fund, in which the Group holds a current interest of 26.9%, has announced that it will refinance its debt with a £1.06 billion bond issue, at a rate of 18 basis points over LIBOR. The issue will increase the average duration of the Mall Funds debt from four to seven years and is expected to generate an additional £6 million per year of returns to investors due to reduced interest costs.

Additional information

Property under management

	30 December 2004 £m	31 December 2003 £m
Investment properties	**83**	52
Trading properties	**8**	8
Mall fund	**2,099**	1,243
Junction fund	**1,010**	757
X-Leisure fund	**597**	501
Other joint ventures	**226**	332
Total	**4,023**	2,893

Fund portfolio information

At 30 December 2004

	Mall Fund	Junction Fund	X-Leisure Funds
Number of core properties	21	17	18
Number of tenants	1,991	202	267
Square feet (000)	7,108	3,460	2,867
Properties at market value (note 1)	£2,099m	£1,010m	£597m
Initial yield %	5.77%	3.85%	6.15%
Equivalent yield %	6.27%	5.56%	6.89%
Vacancy rate	3.50%	7.60%	1.40%
Net rental income (£m per annum)	£125.3m	£42.0m	£38.3m
Estimated rental value (£m per annum)	£147.2m	£57.3m	£43.7m
Rental increase (ERV)	2.55%	11.40%	2.00%
Reversionary %	7.57%	17.11%	6.82%
Loan to value ratio	47.96%	46.00%	61.40%
Underlying valuation change since 31 December 2003	11.98%	18.60%	4.60%
Property level return	19.61%	24.00%	11.40%
Geared return	25.99%	35.64%	18.00%
Unit price (£1.00 at inception)	£1.7604	£1.8661	£1.1333
C&R share	27.86%	27.32%	10.77%

Notes:

1 Properties at 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 30 December 2004.

Five-year review

for the periods ended 25 December 2000 to 30 December 2004

	2004	2003	2002	2001	2000
Number of shares in issue (million)	**64.040**	63.112	61.746	78.856	88.735
Diluted number of shares in issue (million)	**73.636**	76.469	74.347	91.268	101.147
Adjusted fully diluted net assets per share	**710p**	521p	392p	336p	350p
Adjusted fully diluted net assets per share growth	**36.3%**	32.9%	15.5%	(4.1)%	(5.4)%
Capital employed	**494,537**	367,126	270,338	287,241	333,889
Borrowings	**117,844**	110,087	95,136	440,894	590,449
Cash at bank	**4,427**	4,475	4,159	8,567	6,091
Net bank debt	**113,417**	105,612	90,977	432,327	584,358
Convertible Unsecured Subordinated Loan Stock	**20,281**	24,406	24,314	24,223	24,132
Net debt	**133,698**	130,018	115,291	456,550	608,490
Net debt less CULS/capital employed including CULS	**22.0%**	27.0%	30.9%	138.8%	163.2%
Profit on ordinary activities before taxation	**26,041**	26,347	2,073	11,363	14,168
Earnings per share	**32.2p**	31.4p	1.3p	24.0p	9.7p
Dividend per share	**14p**	9.0p	7.0p	6.0p	5.5p

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

Shareholders' information

2005 financial calendar

Final dividend record date	22 April 2005
Annual General Meeting	15 June 2005
Final dividend payment	20 June 2005
Interim results	September 2005
Interim dividend	October/November 2005
2005 preliminary results announcement	March/April 2006

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telelephone: 0870 691 5366

Final dividend 2004 timetable

Record date	22 April 2005
Last day to receive DRIP mandates	6 June 2005
Dividend warrants posted	17 June 2005
Payment date/shares purchased	20 June 2005
Certificates/purchase statements dispatched	1 July 2005
CREST accounts credited	4 July 2005

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.

HSBC/APUT All Pooled Funds Index The Indices are published jointly by HSBC and the Association of Property Unit Trusts and compiled and calculated by Investment Property Databank. They are published quarterly (with a target of ten working days from the end of the quarter) and measure investment performance on a NAV-to-NAV basis, adjusted to include income distributions.

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.

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.

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.

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.

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 85four
Cover photography by Marcus Lyon
Review and directors photographed by Robert Wheeler

Printed in England by Cousin. This report is printed using vegetable-based inks on paper which is made from 50% chlorine-free pulp from plantation forests, and from 50% recycled and de-inked fibres. Our printer operates an EcoTrans Recycling System, which recycles the chemicals used within the printing process and makes any waste Ph neutral.

Capital & Regional plc
10 Lower Grosvenor Place
London SW1W OEN

T: 020 7932 8000
F: 020 7802 5600
www.capreg.com