

18 September 2003

## **INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2003**

Capital & Regional plc, the co-investing property asset manager, today announces its unaudited interim results for the six months ended 30 June 2003.

### **Highlights:**

- Increase in properties under management from £1.5b to £2.6b over the six month period including circa £500m from the acquisition of the fund management business of MWB;
- Net asset value per share increased by 11.6% to 433p over the six month period on a fully diluted basis (31 December 2002 388p);
- Profit before tax of £8.3m (30 June 2002 £4.4m before exceptionals of £7.2m);
- Total return, including revaluation surplus, of £36.8m (30 June 2002 £16.6m);
- A 4p interim dividend to be paid on 17 October 2003 (2002: 3.0p);
- Planning permission granted for the Junction Fund's retail park development at Aylesbury;
- Acquisition of Castle Mall Norwich. ISIS Property takes a 19.8% stake in the Mall fund.

### **Commenting on the results, Martin Barber, Chief Executive said:**

"During the first six months of this year we have begun to see the rewards of the new strategy of converting the company into a co-investing asset manager".

### **For further information:**

Martin Barber, Chief Executive

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## **CHAIRMAN & CHIEF EXECUTIVE'S STATEMENT**

During the first six months of this year we have begun to see the rewards of the new strategy of converting the company into a co-investing asset manager.

The total portfolio under management has increased substantially from £1.5bn to £2.6bn. Profit before tax was £8.3m (30 June 2002: £2.8m loss) and our total return, including revaluation gains, was £36.8m compared to £16.6m for the same period last year. We are also pleased to report that fully diluted asset backing per share has increased 11.6% to 433p per share over the six month period.

### **DIVIDEND**

Following the establishment of a strong flow of fee income from our asset management business, the Board has decided to increase the dividend from 3p to 4p per share. This will be paid on 17 October to shareholders on the register on 3 October 2003.

### **SHOPPING CENTRES**

#### **The Mall Fund**

Gross assets of The Mall Fund have increased from a year end figure of £724.8m to £978.4m. This includes two principal acquisitions completed in the half year:

- The Mall Chester - £105.7m
- The Mall Sutton Coldfield - £104.0m

In addition, our ownership at The Mall, Epsom was consolidated with the purchase of the adjacent High Street, Waterstones unit for £1.6m. These transactions now bring the total square footage in the Mall Fund to 4.1m.

Mall Fund performance for the half year was 8.0% ungeared and 12.1% geared. The annualised geared fund return since inception in March 2002 is 26.1%. Rental values excluding acquisitions made in the half year grew by 1.85% to £83m. Net rental annual income has risen to £71.25m, an increase of 4.5% on a like for like basis.

In March 2003, the Fund's equity base was enhanced by a £31m investment by Scottish Amicable which diluted the Group's share of the fund from 49.4% to 45.8%. At the same time the life of the fund, and of the Group's management agreement, was extended from 10 to 15 years.

Yesterday we announced that the Mall fund has agreed to buy the Castle Mall shopping centre in Norwich for £115m. ISIS Property, the vendor, is investing the entire proceeds in the Mall fund, diluting C&R's interest from 45.8% to 36.7%.

## **RETAIL PARKS**

### **The Junction Fund**

The gross assets of The Junction Fund have increased from a year end figure from £536m to £749m at June 2003. The first six months performance was 7.4% ungeared and 11.1% geared. It is estimated that the rental values have increased in the period by 5.8%. Passing rent has risen by 8% on a like for like basis, and rent reviews are being achieved above expectations.

In February 2003, The Junction Limited Partnership was part of a consortium which acquired a substantial portfolio from Chartwell a subsidiary of Kingfisher. This transaction brought approximately £143m of new stock into The Junction.

Our first rebranded Junction retail park opened in Hull in April with our first pre-let "Pod". The occupiers, which include Starbucks and Carphone Warehouse, are reporting good trade and the visitor numbers to the park and the dwell time have both increased.

We heard last week that the planning permission for 159,000 sq ft of retail space had been granted for the Fund's site at Aylesbury. We expect building work to start later this year.

### **The Glasgow Fort, Auchinlea**

Our retail park division has a joint venture with Pillar to develop a new retail and leisure park near Glasgow and we are pleased to report significant progress with a start on site made in March 2003. Leases have been exchanged so far for a total of £6.1m per annum representing approximately two thirds of the target rents for the first phase. The key tenants which have been signed to date include Next, JJB Sports, Virgin, River Island, Arcadia, Argos and Boots. It is expected that this project will be open for trade in Autumn 2004, and that the estimated total cost of this phase will be £124m.

### **Swansea Retail Park**

The Group acquired this 30 acre site from Swansea City Council for £24m in July 2003 and construction has just started. It has planning consent for 322,000 sq ft of retail space and 30,000 sq ft of leisure space. Occupier demand has been encouraging with pre-lets obtained of more than 190,000 sq ft to destination anchors including a B&Q store of 102,000 sq ft.

## **LEISURE**

### **X-Leisure**

In January 2003, we acquired a leisure property fund business from Marylebone Warwick Balfour which manages approximately £500m of leisure property held in three separate funds. The funds own 18 leisure assets with 2.9m sq ft of space, including Fountain Park in

Edinburgh, Star City in Birmingham and O2 in North London. A team of 17 joined Capital & Regional and has been merged with the Capital & Regional unit which manages the Xscape joint ventures, led by PY Gerbeau.

Since taking over, we have introduced a programme of seasonal events supported by marketing and PR campaigns. The effect has been to raise awareness in local communities and increase footfall. The number of voids in the portfolio has fallen.

We have also started to focus on medium term business plans for adding value to each individual property. We are now starting to discuss with the investors of X-Leisure the possibilities for restructuring of the three funds.

### **Xscape**

Our Xscape operations are progressing well. The Milton Keynes Xscape has seen consistent increases in footfall which is expected to exceed 6m visitors this year, a 22% increase on last year. This has resulted in increased rental values as the occupiers trade profitably. The Castleford Xscape is on programme for completion of construction at the end of September this year with an official launch in mid October. The project is on budget and on time. 81% of the floor area has been leased to date with detailed negotiations progressing with additional operators.

We hope to commence our third Xscape at Braehead, Glasgow in partnership with Capital Shopping Centres in the summer of 2004.

### **Great Northern**

On 30 May the Group entered into a 50:50 joint venture with AWG, the owners of the Great Northern Leisure and Retail Complex in Manchester.

This property offers significant opportunities to use Capital & Regional's retail and leisure expertise to add value through new lettings and more imaginative use of the space available. The terms of the joint venture enable us to participate in a disproportionate share of the upside.

### **OUTLOOK**

There is strong interest from investors, both institutional and private for property in the sectors in which we operate and this has contributed to the increased valuations. What is really important to us, however, is that our particular occupiers are generally trading well and demand for space is strong in all three of the sectors in which we operate. We see no reason in the medium term for either of these to change and therefore are confident of our future growth.

## **INDEPENDENT REVIEW REPORT TO CAPITAL & REGIONAL PLC**

### **Introduction**

We have been instructed by the company to review the financial information for the six months ended 30 June 2003 which comprises the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement and related notes 1 to 13. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

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

### **Review work performed**

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

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

Deloitte & Touche LLP  
Chartered Accountants  
London  
18 September 2003

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<b>(Unaudited) 6 months to 30 June 2003 £000</b>	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
Notes			
Turnover: group income and share of joint ventures' turnover	<b>13,318</b>	21,980	34,998
Less: share of joint ventures' turnover	<b>(1,342)</b>	(7,350)	(8,788)
<b>Group turnover</b>	<b>11,976</b>	14,630	26,210
Cost of sales	<b>(2,762)</b>	(3,692)	(5,763)
<b>Gross profit</b>	<b>9,214</b>	10,938	20,447
Profit/(loss) on disposal of trading and development properties	-	167	(1,023)
Administrative expenses	<b>(8,662)</b>	(5,344)	(14,261)
<b>Group operating profit</b>	<b>552</b>	5,761	5,163
Share of operating profit in joint ventures and associates	<b>20,263</b>	12,886	27,298
<b>Total operating profit</b>	<b>20,815</b>	18,647	32,461
Exceptional costs of a fundamental reorganisation	-	(7,178)	(7,184)
Profit/(loss) on sale of investment properties	<b>1,398</b>	(1,143)	(789)
Share of profit on sale of investment properties in associates and joint ventures	<b>497</b>	-	2,609
<b>Profit on ordinary activities before interest</b>	<b>22,710</b>	10,326	27,097
Interest receivable and similar income	<b>503</b>	661	1,043
Interest payable and similar charges			
- Group	<b>(3,672)</b>	(6,678)	(10,649)
- Share of associates	<b>(10,060)</b>	(5,371)	(12,451)
- Share of joint ventures	<b>(1,220)</b>	(1,700)	(2,967)
	<b>(14,952)</b>	(13,749)	(26,067)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>8,261</b>	(2,762)	2,073
Taxation	<b>(2,691)</b>	(51)	(1,220)
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>5,570</b>	(2,813)	853
Equity minority interests	-	(8)	(8)
<b>Profit/(loss) attributable to the shareholders of the Company</b>	<b>5,570</b>	(2,821)	845
Equity dividends paid and payable	<b>(2,505)</b>	(1,863)	(4,333)
<b>Profit/(loss) retained in the period</b>	<b>3,065</b>	(4,684)	(3,488)
Earnings/(loss) per share	<b>9.0p</b>	(3.9)p	1.3p
Earnings/(loss) per share – diluted	<b>8.2p</b>	(3.9)p	1.2p

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	(Unaudited) 6 months to 30 June 2003 <u>£000</u>	(Unaudited) 6 months to 30 June 2002 <u>£000</u>	(Audited) Period to 31 December 2002 <u>£000</u>
Profit/(loss) before tax	8,261	(2,762)	2,073
Movements in revaluation reserve:			
on investment properties	154	11	509
on other fixed assets	(660)	-	(920)
on properties held in joint ventures and associates	32,006	20,990	38,302
(Loss)/gain on deemed disposals	(344)	-	2,377
Minority interests	<u>-</u>	<u>(8)</u>	<u>(8)</u>
Total gains before tax	39,417	18,231	42,333
Tax shown in profit and loss account	(2,691)	(51)	(1,220)
Tax on revaluation surplus realised	54	(1,574)	(3,556)
Deferred tax	<u>-</u>	<u>-</u>	<u>(485)</u>
Total tax charge	<u>(2,637)</u>	<u>(1,625)</u>	<u>(5,261)</u>
Total recognised gains for the period	<u>36,780</u>	<u>16,606</u>	<u>37,072</u>
Return on equity for the period	<u>13.6%</u>	<u>6.2%</u>	<u>14.6%</u>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	(Unaudited) 6 months to 30 June 2003 <u>£000</u>	(Unaudited) 6 months to 30 June 2002 <u>£000</u>	(Audited) Period to 31 December 2002 <u>£000</u>
Profit/(loss) attributable to shareholders of the Company	5,570	(2,821)	845
Equity dividends paid and payable	<u>(2,505)</u>	<u>(1,863)</u>	<u>(4,333)</u>
Profit/(loss) retained in the period	3,065	(4,684)	(3,488)
Share capital and share premium issued in period	826	806	868
Share capital purchased and cancelled in period (including expenses)	-	(50,845)	(50,845)
Other recognised gains and losses relating to the period	<u>31,210</u>	<u>19,427</u>	<u>36,227</u>
<b>Net increase in/(reduction to) shareholders' funds</b>	<b>35,101</b>	<b>(35,296)</b>	<b>(17,238)</b>
Opening shareholders' funds	<u>270,003</u>	<u>287,241</u>	<u>287,241</u>
<b>Closing shareholders' funds</b>	<b><u>305,104</u></b>	<b><u>251,945</u></b>	<b><u>270,003</u></b>

## CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 June 2003 £000	(Unaudited) As at 30 June 2002 £000	(Audited) As at 31 December 2002 £000
<b>Fixed assets</b>				
Intangible assets	6	16,820	-	-
Investment property assets	7	35,074	62,082	55,475
Other fixed assets		12,676	13,429	12,934
		<b>64,570</b>	75,511	68,409
Investment in joint ventures:				
share of gross assets		151,807	117,763	77,857
share of gross liabilities		(106,628)	(69,787)	(53,168)
	8c	45,179	47,976	24,689
Investment in associates	8b	324,597	261,986	286,367
		<b>434,346</b>	385,473	379,465
<b>Current assets</b>				
Property assets	7	7,756	15,158	7,773
Debtors		27,050	36,170	27,325
Cash at bank and in hand		2,348	5,865	4,159
		<b>37,154</b>	57,193	39,257
<b>Creditors: amounts falling due within one year</b>		<b>(23,153)</b>	(31,750)	(29,281)
Net current assets		<b>14,001</b>	25,443	9,976
Total assets less current liabilities		<b>448,347</b>	410,916	389,441
<b>Creditors: amounts falling due after more than one year</b>				
		<b>(140,312)</b>	(157,863)	(117,041)
<b>Provision for liabilities and charges</b>		<b>(2,931)</b>	(1,108)	(2,397)
<b>Net assets</b>	2	<b>305,104</b>	251,945	270,003
<b>Capital and reserves</b>				
Called up share capital	10	6,219	6,171	6,175
Share premium account	10	163,534	162,693	162,752
Revaluation reserve	10	102,957	65,273	74,005
Other reserves	10	4,290	4,290	4,290
Profit and loss account	10	28,104	13,518	22,781
<b>Equity shareholders' funds</b>		<b>305,104</b>	251,945	270,003
Net assets per share	9	<b>491p</b>	408p	437p
Net assets per share – diluted	9	<b>433p</b>	364p	388p



## SUMMARY CASH FLOW STATEMENT

		(Unaudited) 6 months to 30 June 2003 £000	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
	Notes			
<b>Net cash inflow/(outflow) from operating activities</b>	11	<b>1,797</b>	(13,202)	2,031
Distributions received from joint ventures		<b>350</b>	465	3,355
Distributions received from associates		<b>8,116</b>	1,880	9,418
<b>Returns on investments and servicing of finance</b>		<b>(3,652)</b>	(10,726)	(15,085)
		<b>6,611</b>	(21,583)	(281)
<b>Taxation</b>		<b>(2,660)</b>	(6,020)	(7,606)
		<b>3,951</b>	(27,603)	(7,887)
<b>Capital expenditure and financial investment</b>		<b>19,677</b>	636,049	673,039
		<b>23,628</b>	608,446	665,152
<b>Acquisitions, disposals and exceptional items</b>		<b>(44,158)</b>	(254,448)	(269,219)
		<b>(20,530)</b>	353,998	395,933
<b>Equity dividends paid</b>		<b>(2,482)</b>	(2,770)	(4,623)
<b>Cash (outflow)/inflow before financing</b>		<b>(23,012)</b>	351,228	391,310
Financing:				
Issue of ordinary share capital		<b>826</b>	806	868
Purchase of ordinary share capital		-	(50,845)	(50,845)
Cash inflow/(outflow) from debt financing		<b>20,375</b>	(303,891)	(345,741)
<b>Decrease in cash in the period</b>		<b>(1,811)</b>	(2,702)	(4,408)
<b>Reconciliation of net cash flow to movement in net debt</b>		(Unaudited) 6 months to 30 June 2003 £000	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
Decrease in cash in the period		<b>(1,811)</b>	(2,702)	(4,408)
Cash (outflow)/inflow from debt financing		<b>(20,375)</b>	303,891	345,740
Change in net debt resulting from cash flows		<b>(22,186)</b>	301,189	341,332
Net debt at beginning of period		<b>(115,933)</b>	(457,265)	(457,265)
Net debt at end of period		<b>(138,119)</b>	(156,076)	(115,933)
<b>Analysis of net debt</b>		(Unaudited) 6 months to 30 June 2003 £000	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
Cash in hand and at bank		<b>2,348</b>	5,865	4,159
Debt due within one year		<b>(200)</b>	(3,450)	(3,450)
Debt due after one year		<b>(140,267)</b>	(158,491)	(116,642)
<b>Total</b>		<b>(138,119)</b>	(156,076)	(115,933)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

The interim financial information has been prepared on the basis of the accounting policies set out in the annual report for the period ended 31 December 2002.

The comparative figures represent the Group's results and cash flows for the periods from 26 December 2001 to 30 June 2002 and from 26 December 2001 to 31 December 2002. The comparative figures for the period ended 31 December 2002 do not constitute statutory accounts but have been extracted from the statutory accounts for that period, which have been filed with the Registrar of Companies. The auditors' report in respect of the period ended 31 December 2002 is unqualified and did not contain a statement under Companies Act 1985 sections 237 (2) or (3).

### 2. Segmental analysis

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

	Asset management £000	Snow slope business £000	Share of joint ventures and associates £000	Wholly owned properties £000	Total (Unaudited) 6 months to 30 June 2003 £000	(Audited) Period to 31 December 2002 £000
Asset management fees	7,130	-	-	-	7,130	7,262
Performance fees	-	-	-	-	-	2,781
Snow slope income	-	2,096	-	-	2,096	4,044
Rental and other income	-	-	-	2,750	2,750	12,123
<b>Group turnover</b>	<b>7,130</b>	<b>2,096</b>	<b>-</b>	<b>2,750</b>	<b>11,976</b>	<b>26,210</b>
Share of joint ventures and associates operating profit	-	-	20,263	-	20,263	27,298
Direct expenses	-	(1,996)	-	(766)	(2,762)	(5,763)
Net interest payable:						-
non recourse	-	-	(10,921)	-	(10,921)	(14,956)
own borrowings (net)	-	-	(2,301)	(1,227)	(3,528)	(10,068)
<b>Contribution</b>	<b>7,130</b>	<b>100</b>	<b>7,041</b>	<b>757</b>	<b>15,028</b>	<b>22,721</b>
Indirect expenses					(8,081)	(14,261)
Amortisation of goodwill					(581)	-
Profit on disposals (net)					1,895	2,319
<b>Profit before exceptional items</b>					<b>8,261</b>	<b>10,779</b>
Exceptional items					-	(8,706)
<b>Profit before taxation</b>					<b>8,261</b>	<b>2,073</b>
<b>Net assets</b>	<b>18,629</b>	<b>349</b>	<b>274,276</b>	<b>11,850</b>	<b>305,104</b>	<b>270,003</b>

No performance fee income has been recognised for the six months ended 30 June 2003 as the fees are based on performance over the full year, and it is not possible to estimate, at 30 June 2003, the amount of fees, if any, which might be earned for the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### 3. Interest payable and similar charges

	(Unaudited) 6 months to 30 June 2003 £000	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
Bank loans and overdrafts	2,884	6,151	9,498
Other loans	<u>877</u>	<u>897</u>	<u>1,684</u>
	<b>3,761</b>	7,048	11,182
Capitalised in period	<u>(89)</u>	<u>(370)</u>	<u>(533)</u>
	<b><u>3,672</u></b>	<b><u>6,678</u></b>	<b><u>10,649</u></b>

### 4. Taxation

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

	(Unaudited) 6 months to 30 June 2003 £000	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
Current tax			
UK corporation tax (at 30%)	2,131	167	580
Tax credit in respect of exceptional items	-	(1,509)	(1,510)
Adjustment in respect of prior years	23	(273)	(274)
Share of joint ventures tax	<u>3</u>	<u>223</u>	<u>177</u>
Total current tax	<b>2,157</b>	(1,392)	(1,027)
Deferred tax			
Origination and reversal of timing differences	<u>534</u>	<u>1,443</u>	<u>2,247</u>
Total taxation	<b><u>2,691</u></b>	<b><u>51</u></b>	<b><u>1,220</u></b>

### 5. Earnings/(loss) per share

	<u>Six months to June 2003</u>		
	Earnings £000	Number of shares	Earnings per share
Basic	5,570	61,907,166	9.0p
Exercise of share options	-	419,461	
Conversion of Convertible Unsecured Loan Stock	<u>598</u>	<u>12,670,912</u>	
Diluted	<b><u>6,168</u></b>	<b><u>74,997,539</u></b>	<b><u>8.2p</u></b>

	<u>Six months to June 2002</u>		
	(Loss) £000	Number of shares	(Loss) per share
Basic	(2,821)	72,857,000	(3.9)p
Exercise of share options	-	-	-
Diluted	<u>(2,821)</u>	<u>72,857,000</u>	<u>(3.9)p</u>

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

The calculation includes the full conversion of the Convertible Unsecured Loan Stock where the effect on earnings per share is dilutive.

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### 6. Intangible assets

The MWB fund management business was acquired on 24 January 2003 for a total consideration of £31,357,000 which included MWB's 13.29% interest in Leisure Fund I, 5.72% in Leisure Fund IIa and 7.09% interest in Leisure Fund IIb. The fair value of the Limited Partner interests in the three funds acquired was £13,955,000. The remaining £17,402,000 has been treated as goodwill. No separate value has been attributed to deferred fees which may be receivable as their realisation is uncertain.

The goodwill is being amortised over 12<sup>1</sup>/<sub>2</sub> years and the charge for the period is £581,000.

### 7. Wholly owned property assets

	Other fixed property assets £000	Investment property assets £000	Trading property assets £000	Total property assets £000
<b>Cost or valuation</b>				
As at 1 January 2003	12,500	55,475	7,773	75,748
Refurbishment and development expenditure	-	5	-	5
Amortisation of short leasehold properties	(40)	(101)	-	(141)
Disposals	-	(20,459)	(17)	(20,476)
Revaluation	(660)	154	-	(506)
As at 30 June 2003	<u>11,800</u>	<u>35,074</u>	<u>7,756</u>	<u>54,630</u>

Investment property assets at 30 June 2003 as per balance sheet	35,074
Tenant incentive adjustment at 30 June 2003 included in current assets	<u>259</u>
Total investment property assets as valued below	<u>35,333</u>

The investment property assets were valued at 30 June 2003, as follows:		£000
DTZ Debenham Tie Leung	Open Market Value	16,450
Insignia Richard Ellis Limited	Open Market Value	3,605
Directors	Open Market Value	2,733
Directors	Net sale proceeds of properties sold after 30 June 2003	<u>12,545</u>
		<u>35,333</u>

The Independent property valuations as at 30 June 2003, were performed by qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors and Insignia Richard Ellis Limited, 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.

### 8. Associates and joint ventures

8a. Share of operating profit	(Unaudited) 6 months to 30 June 2003 £000	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
Associates	19,250	10,382	23,894
Joint ventures	<u>1,013</u>	<u>2,504</u>	<u>3,404</u>
	<u>20,263</u>	<u>12,886</u>	<u>27,298</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### 8b. Associates

	The Mall LP £000	The Junction LP £000	X-Leisure LPs £000	Total to 30 June 2003 £000	Total to 30 June 2002 £000
<b>Profit and loss account (100%)</b>					
Turnover	40,297	17,214	17,161	74,672	28,298
Property expenses	<u>(6,891)</u>	<u>(779)</u>	<u>(1,540)</u>	<u>(9,210)</u>	<u>(3,676)</u>
Net rental income	33,406	16,435	15,621	65,462	24,622
Fund and property management expenses	(2,855)	(2,135)	(1,222)	(6,212)	(2,704)
Administrative expenses	(1,052)	(490)	(195)	(1,737)	(1,154)
Share of joint venture's operating profit	-	1,484	-	1,484	-
Operating profit	29,499	15,294	14,204	58,997	20,764
Sale of investment properties	-	1,799	-	1,799	-
Net interest payable	<u>(13,665)</u>	<u>(9,171)</u>	<u>(10,169)</u>	<u>(33,005)</u>	<u>(10,489)</u>
Profit before and after tax	<u>15,834</u>	<u>7,922</u>	<u>4,035</u>	<u>27,791</u>	<u>10,275</u>
<b>Balance sheet (100%)</b>					
Investment properties and joint ventures	977,778	745,740	489,753	2,213,271	1,021,730
Current assets	49,137	33,611	26,599	109,347	36,568
Current liabilities	(45,170)	(21,369)	(49,313)	(115,852)	(35,824)
Borrowing due in more than one year	<u>(517,102)</u>	<u>(404,433)</u>	<u>(290,608)</u>	<u>(1,212,143)</u>	<u>(497,657)</u>
<b>Net assets (100%)</b>	<u>464,643</u>	<u>353,549</u>	<u>176,431</u>	<u>994,623</u>	<u>524,817</u>
C&R interest at period end	45.81%	27.7%	13.29%	5.72%	7.09%
<b>Group share of</b>					
Operating profit	14,014	4,233	1,003	19,250	10,382
Sale of investment properties	-	497	-	497	-
Net interest payable	<u>(6,485)</u>	<u>(2,539)</u>	<u>(700)</u>	<u>(9,724)</u>	<u>(5,245)</u>
Profit for the period	7,529	2,191	303	10,023	5,137
Revaluation surplus for the period	<u>15,440</u>	<u>7,619</u>	<u>188</u>	<u>23,247</u>	<u>14,363</u>
Investment properties and joint ventures	447,881	206,570	39,170	693,621	510,865
Current assets	22,508	9,310	2,161	33,979	18,284
Current liabilities	(20,691)	(5,919)	(8,991)	(35,601)	(17,912)
Borrowing due in more than one year	<u>(236,864)</u>	<u>(112,028)</u>	<u>(18,088)</u>	<u>(366,980)</u>	<u>(248,829)</u>
Associate net assets	212,834	97,933	14,252	325,019	262,408
Unrealised profit on sale of property to associate	<u>(422)</u>	-	-	<u>(422)</u>	<u>(422)</u>
Group share of associate net assets	<u>212,412</u>	<u>97,933</u>	<u>14,252</u>	<u>324,597</u>	<u>261,986</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

<b>8c. Joint ventures</b>	<b>Xscape Milton Keynes Partnership £000</b>	<b>Xscape Castleford Partnership £000</b>	<b>Auchinlea Partnership £000</b>
<b>Profit and loss account (100%)</b>			
Turnover	1,898	-	352
Property expenses	<u>(210)</u>	-	<u>(150)</u>
Net rental income	1,688	-	202
Fund and property management expenses	(50)	-	-
Administrative expenses	<u>(104)</u>	<u>(3)</u>	<u>-</u>
Operating profit/(loss)	1,534	(3)	202
Sale of investment properties	-	-	-
Net Interest (payable)/receivable	<u>(1,593)</u>	-	<u>(528)</u>
Loss before tax	(59)	(3)	(326)
Taxation and minority interests	<u>-</u>	<u>-</u>	<u>-</u>
Loss after tax	<u>(59)</u>	<u>(3)</u>	<u>(326)</u>
<b>Balance sheet (100%)</b>			
Investment properties	74,290	40,783	87,950
Current assets	5,280	924	3,045
Current liabilities	(2,297)	(3,412)	(2,385)
Borrowing due in more than one year	<u>(46,800)</u>	<u>(29,750)</u>	<u>(38,775)</u>
<b>Net assets (100%)</b>	<u>30,473</u>	<u>8,545</u>	<u>49,835</u>
C&R Interest at period end	50.0%	66.7%	50%
<b>Group share of</b>			
Turnover	<u>949</u>	-	<u>176</u>
Operating profit/(loss)	767	(2)	101
Sale of investment properties	-	-	-
Net interest payable	<u>(797)</u>	-	<u>(264)</u>
Loss before tax	(30)	(2)	(163)
Taxation and minority interests	<u>-</u>	<u>-</u>	<u>-</u>
Loss after tax	<u>(30)</u>	<u>(2)</u>	<u>(163)</u>
Revaluation surplus for the period	<u>513</u>	-	<u>8,246</u>
Investment properties	37,145	27,187	43,975
Current assets	2,641	616	1,523
Current liabilities	(7,169)	(2,274)	(1,193)
Borrowing due in more than one year	<u>(23,400)</u>	<u>(19,833)</u>	<u>(19,387)</u>
<b>Joint venture net assets</b>	<u>9,217</u>	<u>5,696</u>	<u>24,918</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### 8c. Joint ventures (cont)

	Morrison Merlin £000	Others £000	Total to 30 June 2003 £000	Total to 30 June 2002 £000
<b>Profit and loss account (100%)</b>				
Turnover	434	-	2,684	14,699
Property expenses	<u>337</u>	<u>8</u>	<u>(15)</u>	<u>(8,054)</u>
Net rental income	771	8	2,669	6,645
Fund and property management expenses	-	-	(50)	(50)
Administrative expenses	<u>(371)</u>	<u>(108)</u>	<u>(586)</u>	<u>(1,587)</u>
Operating profit/(loss)	400	(100)	2,033	5,008
Sale of investment properties	-	-	-	-
Net interest (payable)/receivable	<u>(293)</u>	<u>20</u>	<u>(2,394)</u>	<u>(3,311)</u>
Profit/(loss) before tax	107	(80)	(361)	1,697
Taxation and minority interests	<u>-</u>	<u>(9)</u>	<u>(9)</u>	<u>(276)</u>
Profit/(loss) after tax	<u>107</u>	<u>(89)</u>	<u>(370)</u>	<u>1,421</u>
<b>Balance sheet (100%)</b>				
Investment properties	-	-	203,023	204,930
Current assets	75,896	1,244	86,389	26,371
Current liabilities	(3,289)	(946)	(12,329)	(18,463)
Borrowing due in more than one year	<u>(62,500)</u>	<u>-</u>	<u>(177,825)</u>	<u>(62,500)</u>
<b>Net assets (100%)</b>	<u>10,107</u>	<u>298</u>	<u>99,258</u>	<u>150,338</u>
C&R Interest at period end	50.0%	50.0%		
<b>Group share of</b>				
Turnover	<u>217</u>	<u>-</u>	<u>1,342</u>	<u>7,350</u>
Operating profit	200	(53)	1,013	2,504
Sale of investment properties	-	-	-	-
Net interest (payable)/receivable	<u>(147)</u>	<u>10</u>	<u>(1,198)</u>	<u>(1,655)</u>
Profit/(loss) before tax	53	(43)	(185)	849
Taxation and minority interests	<u>-</u>	<u>(3)</u>	<u>(3)</u>	<u>(138)</u>
Profit/(loss) after tax	<u>53</u>	<u>(46)</u>	<u>(188)</u>	<u>711</u>
Revaluation surplus for the period	<u>-</u>	<u>-</u>	<u>8,759</u>	<u>6,627</u>
Investment properties	-	-	108,307	104,539
Current assets	37,948	772	43,500	13,224
Current liabilities	(1,644)	(478)	(12,758)	(14,869)
Borrowing due in more than one year	<u>(31,250)</u>	<u>-</u>	<u>(93,870)</u>	<u>(54,918)</u>
<b>Joint venture net assets</b>	<u>5,054</u>	<u>294</u>	<u>45,179</u>	<u>47,976</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### 9. Net assets per share

	<u>As at 30 June 2003</u>		
	<u>Net assets £000</u>	<u>Number of shares</u>	<u>Net assets per share</u>
Basic	305,104	62,189,911	491p
Conversion of Convertible Subordinated Unsecured Loan Stock ("CULS") (net of unamortised issue costs)	24,359	12,670,912	-
Exercise of share options	<u>6,004</u>	<u>2,681,738</u>	-
Fully diluted	335,467	77,542,561	433p
Deferred tax not provided	(22,701)	-	-
Loan fair value adjustment (note 12)	<u>(7,094)</u>	-	-
Triple net	<u>305,672</u>	<u>77,542,561</u>	<u>394p</u>

  

	<u>As at 30 June 2002</u>		
	<u>Net assets £000</u>	<u>Number of shares</u>	<u>Net assets per share</u>
Basic	251,945	61,711,015	408p
Conversion of Convertible Subordinated Unsecured Loan Stock ("CULS") (net of unamortised issue costs)	24,268	12,670,912	-
Exercise of share options	<u>7,918</u>	<u>3,599,524</u>	-
Fully diluted	284,131	77,981,451	364p
Deferred tax not provided	(10,243)	-	-
Loan fair value adjustment (note 12)	<u>(1,170)</u>	-	-
Triple net	<u>272,718</u>	<u>77,981,451</u>	<u>350p</u>

  

	<u>As at 31 December 2002</u>		
	<u>Net assets £000</u>	<u>Number of shares</u>	<u>Net assets per share</u>
Basic	270,003	61,746,441	437p
Conversion of Convertible Subordinated Unsecured Loan Stock ("CULS") (net of unamortised issue costs)	24,314	12,670,912	-
Exercise of share options	<u>6,901</u>	<u>3,160,408</u>	-
Fully diluted	301,218	77,577,761	388p
Deferred tax not provided	(13,996)	-	-
Loan fair value adjustment (note 12)	<u>(4,604)</u>	-	-
Triple net	<u>282,618</u>	<u>77,577,761</u>	<u>364p</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### 10. Reserves

	Share capital £000	Share premium account £000	Property revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At beginning of year	6,175	162,752	74,005	4,290	22,781	270,003
Issue of share capital	44	782	-	-	-	826
Revaluation of investment properties & other fixed assets	-	-	(506)	-	-	(506)
Share of revaluation surplus of JV's & associates	-	-	32,006	-	-	32,006
Tax on revaluation surpluses realised in the period	-	-	-	-	54	54
Realisation of surplus on disposal of investment properties	-	-	(2,548)	-	2,548	-
Loss on deemed disposal	-	-	-	-	(344)	(344)
Profit retained in the period	-	-	-	-	3,065	3,065
<b>At end of period</b>	<u>6,219</u>	<u>163,534</u>	<u>102,957</u>	<u>4,290</u>	<u>28,104</u>	<u>305,104</u>

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

	(Unaudited) 6 months to 30 June 2003 £000	(Unaudited) 6 months to 30 June 2002 £000	(Audited) Period to 31 December 2002 £000
Group operating profit	552	5,761	5,163
(Loss)/profit on sale of trading and development properties	-	(167)	1,023
	552	5,594	6,186
Depreciation of other fixed assets	219	174	482
Amortisation of short leasehold properties	101	101	203
Amortisation of tenant incentives	(15)	344	308
Amortisation of goodwill	581	-	-
Profit on disposal of fixed assets	(6)	(5)	(6)
Decrease/(increase) in trade debtors, other debtors and prepayments	60	(6,087)	8,708
Decrease in trade creditors, other creditors, taxation and social security and accruals	(378)	(13,323)	(13,850)
Non cash movement relating to the LTIP	683	-	-
Net cash flow from operating activities	<u>1,797</u>	<u>(13,202)</u>	<u>2,031</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONT)

### 12. Debt valuation

The table below reflects the adjustment to the accounts, after the impact of corporation tax, required to adjust the carrying value of fixed rate debt and swaps to market value. The figures include the group share of debt held by joint ventures and associates.

	<b>(Unaudited)</b>	(Unaudited)	(Audited)
	<b>As at</b>	As at	As at
	<b>30 June</b>	30 June	31 December
	<b>2003</b>	2002	2002
	<b>£000</b>	£000	£000
Decrease in net assets	<u><b>7,094</b></u>	<u>1,170</u>	<u>4,604</u>

### 13. Copies of the Interim Report

Copies of the Interim Report will be available from the Company's registered office at 10 Lower Grosvenor Place, London, SW1W 0EN when they have been printed.

## Additional information

### Property under management

	30 June 2003	31 December 2002
	<u>£m</u>	<u>£m</u>
Investment properties	35	56
Trading properties	8	8
Mall fund	978	724
Junction fund	749	536
Leisure funds	494	-
Other joint ventures	278	133
Other properties under management	40	40
Total	<u>2,582</u>	<u>1,497</u>

### Fund Portfolio information at 30 June 2003

	<u>Mall Fund</u>	<u>Junction Fund</u>	<u>X-Leisure Fund 1</u>	<u>X-Leisure Fund 2a</u>	<u>X-Leisure Fund 2b</u>
Number of core properties	13	18	7	5	7
Number of tenants	1,069	284	42	79	59
Square feet (000)	4,096	3,571	919	1,226	741
Properties at valuation (note 1)	£978m	£749m	£125m	£231m	£138m
Initial yield %	6.99%	5.15%	6.97%	6.69%	6.81%
Equivalent yield % (note 2)	7.40%	6.58%	7.90%	7.15%	7.34%
Vacancy rate (note 3)	2.3%	6.4%	3.5%	2.8%	0.5%
Net rental income (£m per annum)	£71.2m	£39.5m	£8.7m	£15.5m	£9.4m
Estimated rental value (£m pa) (note 4)	£83.0m	£50.9m	£9.5m	£17.8m	£10.1m
Rental increase (ERV)	1.84%	5.46%	1.69%	3.55%	2.43%
Reversionary % (note 5)	7.72%	19.00%	8.49%	7.93%	5.88%
Loan to value ratio	53%	54%	63%	64%	65%
Underlying valuation change since 31 December 2002	3.73%	4.56%	0.42%	(0.26)%	1.61%
Increase in unit value or NAV since 31 December 2002	7.70%	8.40%	1.12%	(0.72)%	4.83%
Total return, annualised since inception	26.1%	20.2%	12.2%	3.0%	(1.5)%
C&R share	45.81%	27.70%	13.29%	5.72%	7.09%

#### Notes:

- Properties under management include tenant incentives which are transferred to current assets for accounting purposes (see note 8).
- The equivalent yield is the nominal equivalent yield based on rents passing and estimated rental values at 30 June 2003.
- The vacancy rate is based on the % of ERV
- Estimated rental value at 30 June 2003 including vacant space and after deducting head and equity rents
- The amount by which the estimated rental value, excluding that relating to vacant space, exceeds the rents passing at 30 June 2003