Capital & Regional

Capital and Regional Properties plc
Annual Report 1999

Capital & Regional invests in and manages properties, which are dynamic in their retail and leisure opportunities. Properties which the consumer visits, enjoys and where they spend money.

We have built a skilled and specialised team of people, focused on providing a ‘Leading Edge’ approach to the management and marketing of our properties.

Capital & Regional works in partnership with tenants and local communities to increase footfall, help to build occupiers’ profits and so add value to our business.

This strategy will secure long term sustainable growth and provide investor returns at the forefront of the sector.

Contents

1999 Highlights

- Fully diluted net assets per share increased by 17% to 376p (1998: 18% to 321p)
- Net rental income up 18% to £45.5m (1998: £38.5m)
- Profit on revenue activities at £10.4m, up 49% (1998: £7.0m), excluding surrender premiums £0.3m (1998: £4.5m)
- Earnings per share up 1% to 12.2p (1998: 12.1p)
- Dividends per share up 18% to 5.0p (1998: 4.25p)
- On a same store basis, that is property owned at the end of 1998 and retained during the whole of 1999, achieved capital growth of 6.5%
- Acquisitions of £214m during the year, including The Ashley Centre, Epsom for £73m, Westway Shopping Park for £33m and St Andrew's Quay Retail and Leisure Park, Hull for £24m
- Disposals of £48m including Eureka Leisure Park, Ashford, Kent for £17m
- Conditional contracts have been entered into to develop:
  – a 33 acre site in Oldbury, West Midlands for a 475,000 sq ft retail and leisure park
  – a 6.35 acre town centre site in Yeovil for a 90,000 sq ft leisure scheme
- Xscape, Milton Keynes, the integrated retail and leisure entertainment destination, with 'real snow' ski slope completes in May 2000. Agreements reached to develop concept in Castleford, UK and in Ruhr, Germany
- Eight 100,000 to 130,000 sq ft retail warehouse 'Big Box' units have been let or agreed on our existing parks and future developments
- Capital & Regional and PRICOA Property Investment Management Limited in discussion with a number of institutional investors regarding the establishment of a fund to invest in UK in-town covered centres. The initial response from investors is favourable
- Current portfolio of over 80% retail and leisure, consists of 10 in-town covered centres and 12 retail and leisure parks, including Xscape, Milton Keynes. Portfolio value over £900m providing over 5m sq ft, with future developments of over 2m sq ft

Chairman's Statement

Results

1999 was another excellent year for Capital & Regional. Every year since its flotation in 1986, the Company has produced returns, which place it at the forefront of the UK quoted property companies sector. This year was no exception and we intend to continue our out-performance.

Our fully diluted net assets per share of 376p have increased 17% from 321p. Profit on revenue activities at £10.4m has increased 49% (1998: £7.0m), excluding surrender premiums £0.3m (1998: £4.5m). Earnings per share up 1% to 12.2p (1998: 12.1p). A final dividend of 3.0p is proposed, making a total for the year of 5.0p per share (1998: 4.25p), an increase of 18%. Our facility for dividend reinvestment by shareholders established last year continues.

When one adds the increase in the balance sheet reserves to the dividend, the Company has delivered a return of £66.7m (1998: £58.6m), representing a return of 20% on opening shareholders' funds.

Operating Strategy

Capital & Regional's success is based on a distinctive business style, a 'Leading Edge' management approach. We invest in and manage in-town covered centres and out-of-town retail and leisure parks, which have the potential to provide consumers with an enjoyable, rewarding and stress free shopping and leisure opportunity. Through our approach, we aim to increase the profitability of the retailers and leisure operators who are our tenants, and so add value to their businesses.

Many of our management team have been recruited from retailing, leisure and other commercial backgrounds, enabling them to communicate effectively with the operators and understand their needs. We operate as proactive business managers rather than traditional property asset managers, and we approach our properties very much as department store owners. While the restructuring of leases, renovation of properties, development of greenfield sites and the expansion of existing properties continue to play a part in our strategy, we have also developed significant operational capabilities including facilities management and marketing and promotion.

As a result we can apply, from our own resources, an integrated management approach focused on adding value to tenants' businesses by increasing their ability to make sales. This in turn raises the rental and capital values of our centres.

Our tenants understand our management culture and value our creative and innovative approach. They consider themselves to be in partnership with us in our efforts to enhance profitability for tenant and landlord alike.

Most of the property we own is orientated towards 'value retailing' and UK consumers are increasingly value conscious. Feedback from our tenants demonstrates that they are trading well in our properties.

By increasing relevant footfall, the primary driver of retail profitability, we provide our tenants with more opportunities to sell. At the same time our in-house facilities management team, works to reduce the costs to tenants of security, cleaning,

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Martin Barber Chairman

utilities and all the other services which keep a centre alive. This year, for example, a partnership agreement with PowerGen has enabled us to provide direct savings for tenants in the form of guaranteed lower prices for electricity.

As to the future, much has been said and written about the effects of low inflation and the internet on retail property values. Capital & Regional has proved its ability to increase both rental and capital values in an environment of low inflation.

Similarly, whilst the internet and e-shopping will undoubtedly have an impact on the UK retail property industry, we believe that Capital & Regional is well placed to exploit the opportunities that arise through changes in consumer preferences. Using our 'Leading Edge' management approach and working in partnership with the tenants, we facilitate a successful and controlled environment that will continue to suit the needs of the shopper, and enable our properties to prosper at the expense of competing properties in the surrounding area. We are developing our internet strategy, which will embrace branded community mall web sites and possibly a convenient retail portal.

Strategic Initiatives
In-town Centre Partnership Fund

In October we announced that, together with PRICOA Property Investment Management Limited, Capital & Regional was in discussion with a number of institutional investors regarding the establishment of a fund to invest in UK in-town covered centres, using Capital & Regional's proven ability to enhance values in the retail and leisure sectors. The initial response from institutional investors to this proposal has been favourable.

Consideration is being given to including within the initial portfolio a number of in-town centres currently owned by Capital & Regional and then enlarging the fund's portfolio through the injection of properties from investors and by open-market acquisitions.

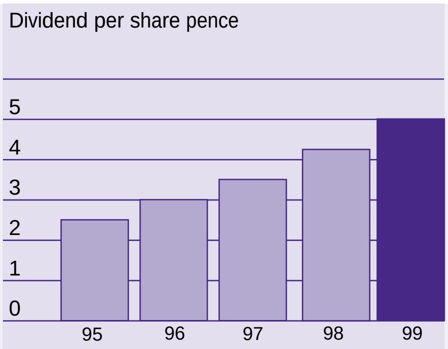
If successfully launched, it is anticipated that Capital & Regional will be incentivised by management fees and a participation in the fund's performance over an agreed hurdle. The scale of the fund combined with Capital & Regional's own operations, will serve to amplify the effectiveness of Capital & Regional's 'Leading Edge' management approach.

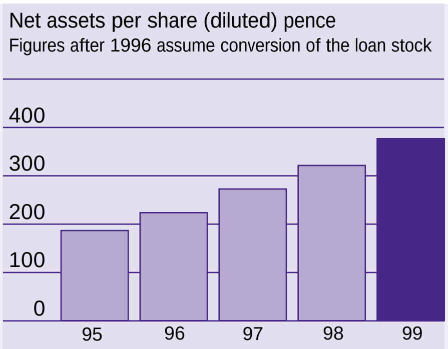
Industrial

In order to concentrate even further our resources into our core business of retail and leisure properties, we are giving consideration to the sale of our industrial property investment portfolio. We hope to report further to shareholders in due course.

Purchase of Own Securities

We have noted the disconnection between the valuation placed on listed property company shares and the market value of their underlying assets. If the current substantial discount to our assets remains, Capital & Regional will give active consideration to re-deploying capital into acquiring a significant proportion of shares for cancellation. A resolution is proposed to this effect in the Notice of the Annual General Meeting as set out on page 66.





The Team

Capital & Regional has grown into a people business, focused on creating value for our tenants and shareholders through the energetic and dynamic management of our properties. Our culture and philosophy is about working in 'partnership', whether it be with investors, retailers, colleagues or local communities. To make this happen, you require a skilled and enthusiastic team of people and these results reflect the strength of this team. On behalf of the Board and all our shareholders, I would like to thank everyone for their contribution to our success.

Over the past year, we have also examined and restructured our whole management team into focused departments, providing a specific function, for example, asset and facilities management. These are primarily 'service providers' to the leasing and acquisitions team, 'the dealmakers' within the Company.

The six Executive Directors now form the Executive Directors Committee whose function collectively, is the overall decision making process. In addition, they have specific responsibilities and areas of expertise. This new structure has enabled us to fully integrate our in-town and out-of-town property teams into one single operating unit, which has benefited enormously from cross portfolio tenant synergies.

The Company has moved to new offices at 10 Lower Grosvenor Place, London, that provide us with significant operating efficiencies.

We have unveiled a new corporate identity for Capital & Regional and the design represents our strategy of 'partnership' to build something stronger. The Company will be proposing a resolution at the Annual General Meeting, to remove 'Properties' from its statutory name, as the business is rapidly becoming an 'operating' rather than a 'property' company and will be known as Capital & Regional.

Capital & Regional is also progressing an action plan to achieve the Investors in People accreditation over this year.

These initiatives provide us with a strong platform for future growth.

All-Employee Share Ownership Plan

Capital & Regional operates an Inland Revenue approved profit sharing scheme that will be replaced by a new All-Employee Share Ownership Plan once legislation is introduced later this year.

Outlook

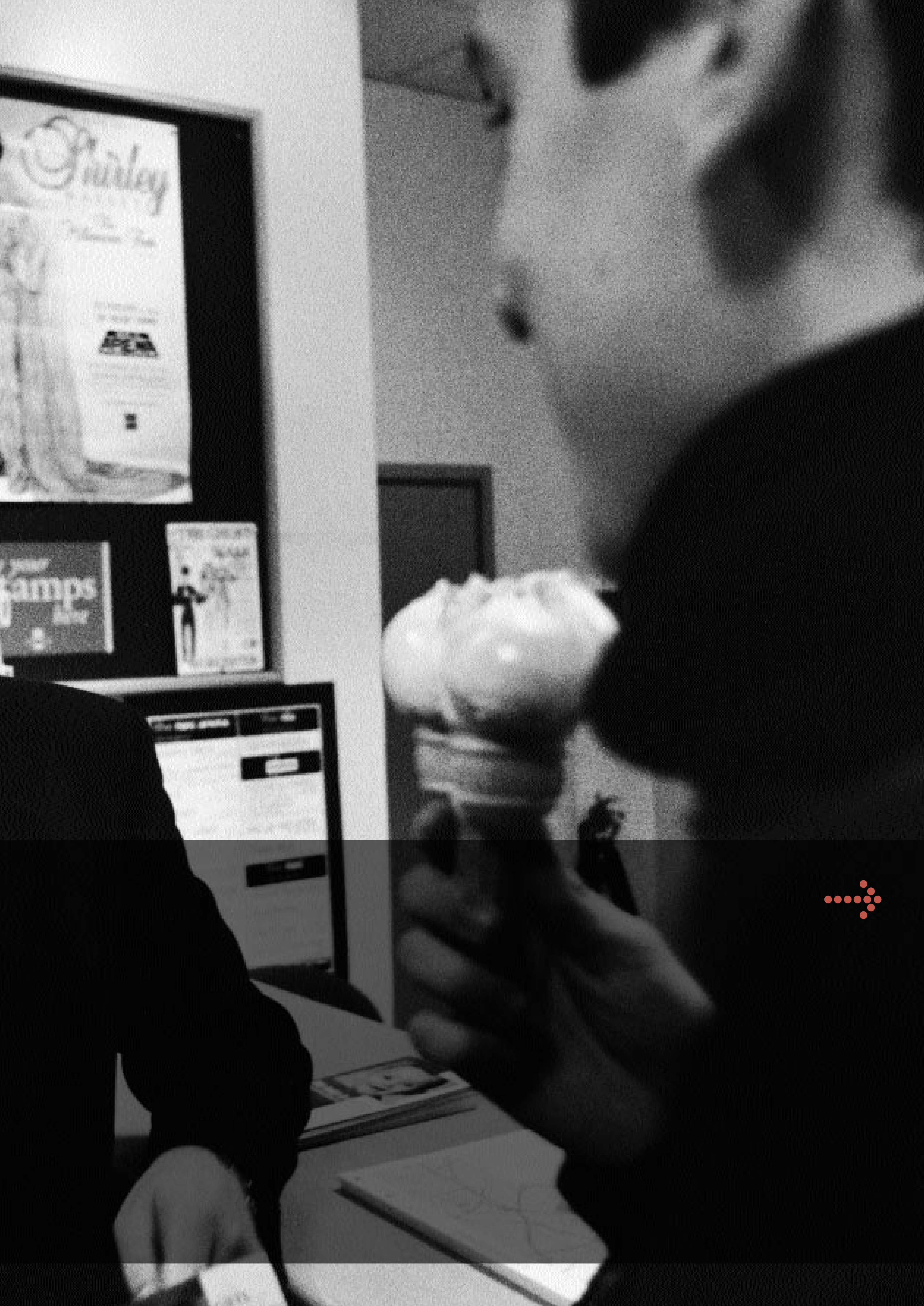
The continued success of Capital & Regional's 'Leading Edge' management approach to retail property investment and management, makes us highly confident of maintaining satisfactory and sustainable returns to shareholders over the years to come.

Capital & Regional's success is based on a distinctive business style, a 'Leading Edge' management approach. Over the next few pages, we highlight the key elements of this operating strategy.

Jonathan Cheetham, Centre Manager, The Pallasades Shopping Centre, Birmingham

Energetic and creative property management

Our centre management teams, assisted by our in-house facilities management company (CRFM) work hard to provide our consumers with an enjoyable, rewarding and stress free shopping and leisure experience. At the same time, reducing the costs to tenants of security, cleaning, utilities and all the other services which keep a centre alive. This year, for example, a partnership agreement with PowerGen has enabled us to provide direct savings for tenants in the form of lower electricity prices.



New video wall – Shopping City, Wood Green, London

Creative and effective marketing

Marketing shopping centres is not simply about mall promotions. Capital & Regional is committed to effective and creative marketing as an essential part of our ‘Leading Edge’ management approach. Through on-going evaluation of our marketing plans, the aim is to increase relevant footfall and sales for our retailers and exceed the expected shopping experience of our customers.

This year’s group wide campaign fulfills the asset management philosophy of Capital & Regional – the ‘stress free and convenient shopping campaign’. This covers all media and produced positive sales and footfall results across the in-town centre portfolio. The success of this marketing has encouraged us to apply the management/marketing formula to specific out-of-town retail and leisure properties.


UNIVERSAL
SPOR

Boots at Westway Shopping Park, Greenford, London

Strong relationships with retail partners

Capital & Regional knows that to succeed, we must satisfy our clients: the retail and leisure operators, in an industry as dynamic and fast moving as retailing. Our tenants understand our management culture and value our creative and innovative approach. They consider themselves to be in partnership with us in our efforts to enhance profitability for tenant and landlord alike.

Many of our management team have been recruited from retailing, leisure and other commercial backgrounds enabling them to communicate effectively with the operators and understand their needs. As a result of these strong relationships with retail partners, we are being offered development and investment opportunities directly by the operators, who are confident that we can fulfill their requirements.

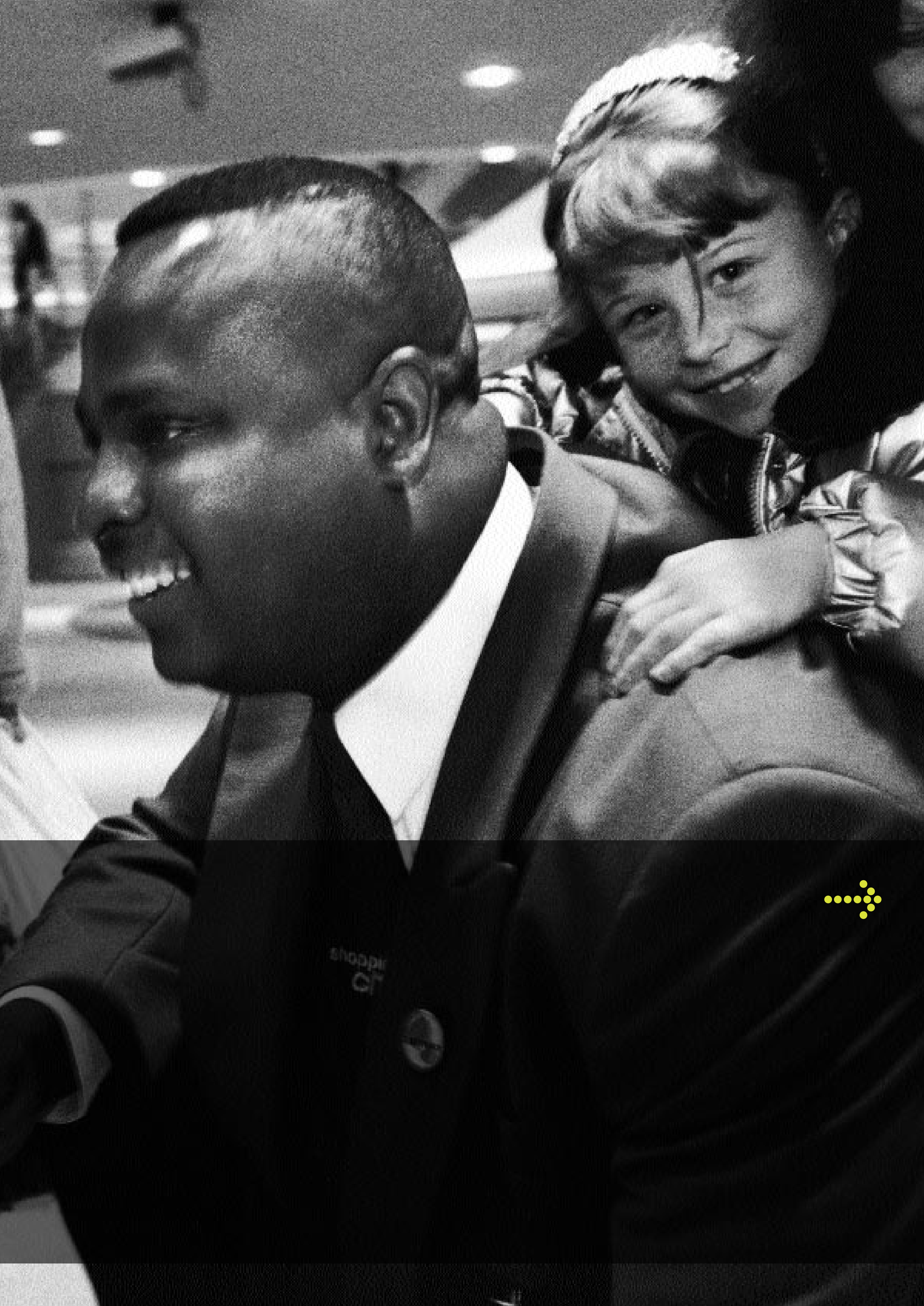

Boots

Lawrence Boya, Security Officer, Shopping City, Wood Green, London

Building a local identity

Capital & Regional works closely with agencies representing the local community. Shoppers naturally want our properties to be a clean and secure environment. To meet that expectation, we work closely with police, local authorities and town centre management. Our ‘Leading Edge’ management influence extends beyond our properties into the surrounding communities.

At Shopping City, Wood Green, London, for example, Capital & Regional partnered the local authority in a ‘Zero Tolerance’ crime prevention initiative. As a result, the Centre won a Secure Car Park Award from the Metropolitan Police and the Automobile Association. The Home Office and British Retail Consortium also chose to launch their ‘Community Crime Reduction Partnership Guide’ at Shopping City.



Xscape, Milton Keynes

Bringing retail and leisure together

Shopping is increasingly a leisure activity and we believe that the most successful retail centres of the future will offer a leisure element. By integrating leisure activities such as multiplex cinemas, restaurants and health and fitness clubs into our centres at Shopping City, Wood Green; the Howgate Centre, Falkirk; Eldon Garden, Newcastle and Liberty 2, Romford, we have not only significantly increased footfall and dwell times, we have also converted surplus or low value space to high value leisure accommodation.

One of our latest and most exciting developments is Xscape, ‘the ultimate entertainment destination’ in Milton Keynes, which features a ‘real snow’ ski slope, a health and fitness club, family entertainment centre, numerous bars and restaurants and lifestyle retailing.

Operating Review

1999 was again a very active year, with acquisitions totalling almost £214m and sales of £48m. Our portfolio has performed extremely well. On a same store basis, that is property owned at the end of 1998 and retained during the whole of 1999, capital growth of 6.5% was achieved. Our portfolio now comprises 83% retail and leisure, 14% industrial and 3% other.

It is worth noting that our portfolio is highly reversionary. The estimated rental value being about £18.8m higher than the £62.3m rents passing at the end of the year. This does not take into account the significant expansion and development opportunities within the portfolio, some of which are noted in this statement.

The rental income from the investment portfolio is high quality, with 67% of passing rent derived from leases expiring after more than ten years.

Investment and Development Market

1999 was a year of improving sentiment as fears of international economic instability failed to materialise and sentiment changed rapidly to a much more optimistic stance.

There is a general shortage of in-town and out-of-town retail and leisure investments and developments with the characteristics for growth and intense competition for these investments when generally available.

However, Capital & Regional is finding that, with the benefit of our knowledge of the marketplace and contacts with the retail and leisure operators, development opportunities are being directed to us by these operators, who understand our management and how we can mutually benefit from our involvement in the proposed project. Recent examples include Eureka Leisure Park, Ashford, Yeovil and St Andrew's Quay, Hull, all referrals from tenant contacts.

We continue to find value in opportunities presented to us that other investors are not placed to exploit without these valuable contacts. The current year continues to be competitive and we are already demonstrating the abilities of our team to source exciting opportunities.

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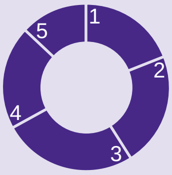
Xavier Pullen Executive Director

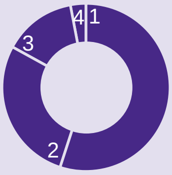
Analysis of investment property rental income by lease expiry as at December 1999*



1 19% more than 20 years
2 22% 15-20 years
3 26% 10-15 years
4 20% 5-10 years
5 13% Less than 5 years

*Assumes all tenant breaks clauses are exercised, no leases are renewed at expiry and no rental growth.

Portfolio value by sector as at 25th December 1999 – £933m



1 55% In-town Centres
2 28% Retail and Leisure Parks
3 14% Industrial
4 3% Other

In-town Centres

The in-town centre portfolio has performed well during 1999. Our consumer driven 'value retail' philosophy focused on affordable, accessible, well-managed community malls has proved to be resilient in the retail climate.

Capital & Regional's 'Leading Edge' management approach is entirely at home in this consumer driven market. Knowing what shoppers want and giving it to them is the key to success, for retailers and ourselves. Our approach to delivering quality services to our retailers at competitive costs of occupation, whilst aggressively marketing and promoting our centres to the shopping public continues to deliver positive results across the portfolio.

The Pallasades, Birmingham

The Pallasades continues to perform well and attract major new retailers at progressively improving rental levels such as HMV, which has taken a unit at £220 per sq ft in Zone A. Negotiations are continuing with Railtrack on the possible extension of the retail area coupled with a greater integration of the station environs and retail elements. All with a view to improving station environs and retail opportunities, reinforcing the centre's hub status as the principal entry point to Central Birmingham.

Shopping City, Wood Green

The major refurbishment and extension programme continued throughout the year with Phase I completing prior to Christmas. This provided a newly refurbished single level fully let market hall, a new 30,000 sq ft unit for Wilkinsons, who are currently fitting out, a re-fitted ground floor Boots and a new mall environment. Phase 2, including the multiplex cinema and associated restaurants, will complete in the Summer. The retail element remains strong with Next and Ottakar's being introduced during the year. The Centre as extended will comprise over 600,000 sq ft of contemporary retail and leisure, and Shopping City will be a major community focus in this strong catchment area.

The Ashley Centre, Epsom

In September, we purchased The Ashley Centre, Epsom from Standard Life for £73m. The Centre comprises 263,000 sq ft of retail with an 800 space car park, and includes approximately 70,000 sq ft of office space. Anchor tenants include Dickens & Jones, Marks & Spencer and Waitrose with fashion retailers such as Gap, Next and Hennes. We plan to re-brand and reconfigure the Centre to satisfy tenant demand together with an extensive marketing programme aimed at re-establishing it within a wealthy catchment.

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Kenneth Ford Executive Director

Below The Ashley Centre, Epsom

The Howgate Centre, Falkirk

The six month programme of major works to the Marks & Spencer atrium was completed at Christmas. This included rationalisation of escalators and the relocation of the catering offer to the main mall level. Early indications are that this initiative is producing the desired results of greater footfall and longer dwell times in the Centre as a whole, with the prospect of increased rental growth in the units immediately surrounding the atrium. The modernisation of the integrated centre management car park has commenced and is due to complete in the first half of this year.

Selborne Walk, Walthamstow

Selborne Walk is now substantially fully let and continues to dominate its catchment area. Current tenancy led initiatives being pursued will both satisfy current retailer demand and establish continuing rental growth patterns. Planning consent has been obtained to provide an additional retail area of 45,000 sq ft and a further 45,000 sq ft leisure component, which will be developed to tenant demand.

The Trinity Centre, Aberdeen

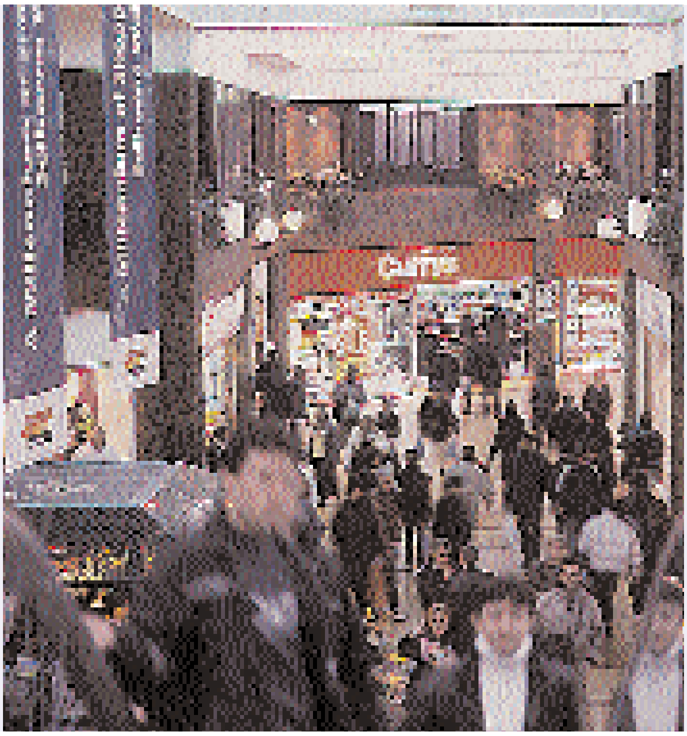
Since its purchase by Capital & Regional in 1993, the Centre has been transformed through considerable investment in the malls and car park. It is now fully let and anchors include Ottakar's bookshop, HMV and Debenhams. The centre continues to demonstrate an annual increase in footfall of 11.7%, driving rental growth of over 10% in the year. Work is underway to install the frontage canopy and branding will be complete in the first quarter of this year.

Sauchiehall Centre, Glasgow

The successful introduction in December of a Healthland Fitness Centre at the Centre's upper levels is consistent with the Company's strategy of mixing retail and leisure to broaden our property's appeal over a longer trading day. We continue to appraise redevelopment options for the Centre to focus value on the improving Sauchiehall Street frontage.

Alhambra Centre, Barnsley

With the closure of the adjacent Co-op Living department store in July, the Alhambra Centre has had a challenging year. However, the on-site management team have worked hard and increased footfall by 18.7% and as a consequence a majority of the retailers' turnover has been retained. We have agreed to purchase the Co-op store and plan to introduce new retailers to the Centre from the reconfigured space.



Left Selborne Walk, Walthamstow, London Below The Ashley Centre, Epsom

Liberty 2, Romford

Liberty 2 is the 'value retail' centre within a strong value-orientated catchment. Substantially fully let, terms have been agreed to acquire from the Local Authority the former 'wet leisure' centre, the Dolphin Centre, which we plan to re-develop to provide inter alia 60,000 sq ft retail, all of which is under pre-let discussion. This extension will reinforce the Centre's attraction by increasing its critical mass by approximately 70%. It is anticipated that construction will start on site during the current year.

Eldon Garden, Newcastle

Eldon Garden has become a significant, quality destination retail centre for Newcastle. Highlights during the year were a major letting to The Pier, taking approximately 20% of the retail area and an award by the British Council of Shopping Centres for Community Marketing. We are currently exploring extension opportunities for the centre.

Left Liberty 2, Romford Above The Trinity Centre, Aberdeen

Retail and Leisure Parks

During the year, we acquired a number of strategic investments and secured some exciting development opportunities, which we believe will produce excellent future results.

We believe 2000 will be the 'Year of the Big Box'. An improving housing market and the impact of interior and garden design television programmes has boosted consumer spending in this area and led B&Q, Homebase and Focus to seek units of between 100,000 and 130,000 sq ft.

Woolworth's new Big W operation, effectively a small out-of-town department store, is seeking units of similar size and we understand Asda/Wal-Mart are also requiring non-food 'Big Box' units which will further intensify competition. Overall, Capital & Regional is extremely well placed to take advantage of 'Y2K Big Box'; we are currently actively involved in eight such deals.

Matalan, Comet and Currys are actively seeking units of 30,000 sq ft and upwards. Demand for smaller sized units will probably be more selective. More retailers will adopt pilot stores out-of-town, and latest reports suggest that out-of-town rents will continue to rise steeply.

In terms of the leisure sector, the consolidation in cinemas seen in 1999 is expected to continue in 2000. Lifestyle changes have led to mass market demand for health clubs; the strong rate of openings in 1999 will continue in 2000. A strong economy has intensified demand for eating out, and cafés, bars and restaurants will continue to grow steadily.

As consumers seek to make better use of their valuable time, bringing retail and leisure together to provide greater choice is proving successful within our retail parks and in-town centres.

Renfrew Retail Park, Glasgow (formerly Blythswood Retail Park)

Re-branding of the retail park to Renfrew Retail Park, including new signage has been completed. Further retail floor space of up to 50,000 sq ft is proposed, replacing existing industrial units where vacant possession has already been substantially obtained. Upon completion, this 270,000 sq ft retail park will be one of the largest in Scotland dominating its immediate catchment area.

Westway Shopping Park, Greenford

The latest letting to Sports Soccer for 10,000 sq ft and the opening of the Next store has encouraged other fashion retailers to make proposals for the remaining three units. Re-branding and physical improvements will be carried out this year. Westway is one of the few fashion orientated parks in London and we are confident of significant further rental increases in the medium term.

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Andrew Lewis-Pratt Executive Director

Wembley Retail Park, London

Further improvements have been put on hold pending discussions with adjacent landowners, English Partnership (Wembley Task Force) and the Local Authority, regarding a major comprehensive development programme, predominantly for retail and leisure uses, to proceed alongside the imminent redevelopment of Wembley Stadium.

St Andrew's Quay, Hull

In December, we acquired St Andrew's Quay Retail and Leisure Park from Associated British Ports and Grosvenor Waterside Group for £24m. The site is 75 acres, part of which comprises a 180,000 sq ft retail and leisure park, with tenants including Focus DIY, Comet and UCI Cinemas. The undeveloped land comprises 38.7 acres of which 5.9 acres has planning consent for 75,000 sq ft of additional retail space and 15.3 acres has consent for 150,000 sq ft of leisure.

Construction of the additional retail space will commence this year and agreements for lease have already been exchanged with DFS for a new 20,000 sq ft unit, together with a 100,000 sq ft 'Big Box' let to B&Q. We believe that St Andrew's Quay will become the premier retail and leisure park for the City.

Beckton Retail Park, London

The latest letting of 100,000 sq ft to Woolworth's Big W and 30,000 sq ft to Matalan will initiate a major refurbishment of the park. With the addition of these tenants and its Open A1 planning consent, this 173,000 sq ft development is set to become one of the few sizeable, quality parks in London.

Junction 10 Retail Park, Glasgow

A planning application has been submitted for a 500,000 sq ft open A1 retail and leisure development on a site of approximately 90 acres, adjacent to our existing 100,000 sq ft park. Planning consent, subject to a referral to the Scottish Executive, is anticipated in the Spring, allowing us the opportunity to develop one of the most significant retail and leisure schemes of its kind in the UK.

Wyrley Brook Retail Park, Cannock

Construction of the new B&Q store and the refurbishment of the park is now complete, transforming Wyrley Brook into a modern retail park. Significant additional floor space is proposed.

Lancaster Retail Park

At Lancaster Retail Park, two new lettings to JJB Sports and Matalan, subject to consent, will significantly enhance the profile of the park and its prospects for future rental growth.

Opposite page Westway Shopping Park, Greenford Left Renfrew Retail Park, Glasgow Above St Andrew's Quay, Hull

Bognor Regis Retail Park

Letting of the final unit to Dreams in this reconfigured and refurbished retail park is now agreed. Further extensions and lease restructuring are proposed.

Channons Hill Retail Park, Bristol

At Channons Hill Retail Park, a tired, old retail cluster has been rejuvenated by refurbishing and extending two units which have been let to Currys and LIDL who are now open and trading. A planning application has been submitted to extend the remaining unit from 7,000 sq ft to 12,000 sq ft.

The Enterprise Retail Park, Swansea

Since the year end, we have acquired a 50,000 sq ft retail investment, let to MFI, adjacent to our existing investment which is let to B&Q. B&Q have surrendered their lease and Comet entered into a new agreement to lease for a 30,000 sq ft store. Our plans are to redevelop the scheme as a 150,000 sq ft open A1 retail park. An anchor “Big Box” unit of 100,000 sq ft has been let to Woolworth’s Big W.

New Developments

Retail and Leisure Park, Oldbury

Since the year end, contracts have been conditionally exchanged to develop a major 33 acre retail and leisure park of up to 475,000 sq ft, proposed in two phases. Planning permission has been obtained for approximately 270,000 sq ft of leisure and restaurants for Phase I. Change of use planning consent has been obtained, subject to referral to the Secretary of State, for 100,000 sq ft of open non food retail use in Phase I. Pre-lets to AMC Cinema and Pizza Hut have been exchanged and a further 230,000 sq ft of retail space is in solicitors’ hands.

International Sports Village, Cardiff

Progress has been made to further our position as developer of this 75-acre site, with a sale agreed for 19 acres of residential use and a letting agreed for a 110,000 sq ft retail warehouse. Negotiations continue with Cardiff County Council regarding the provision of the sporting elements of the scheme.

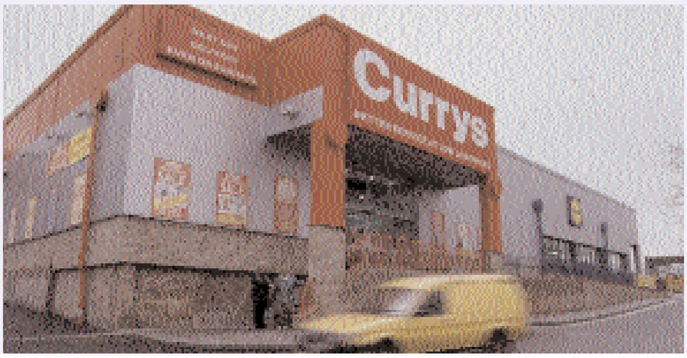
Yeovil

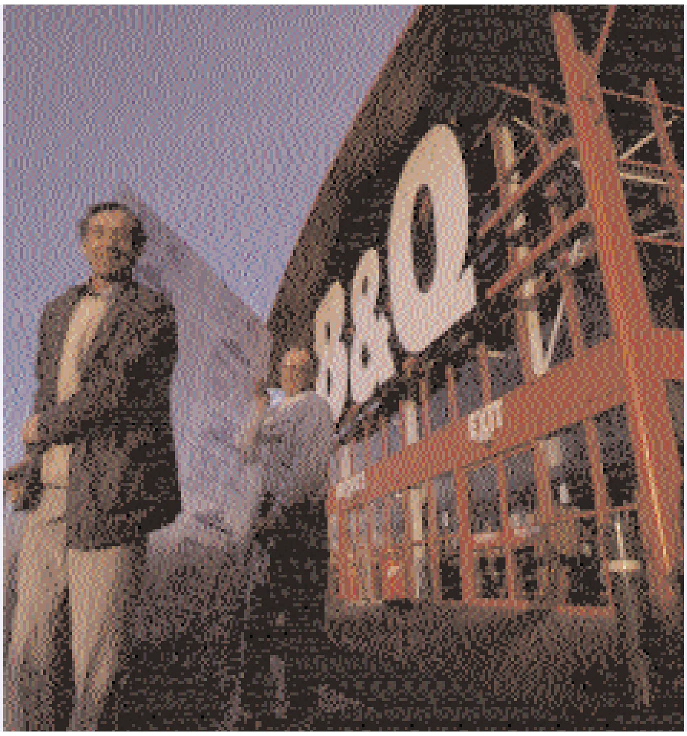
Conditional agreements have been entered into to develop a 6.35 acre town centre site in Yeovil, currently owned by South Somerset District Council. The site currently has outline planning permission for a 90,000 sq ft leisure scheme. Pre-lettings have already been entered into with Cine UK for a ten screen cinema and with Wessex Bowl. Discussions are underway with tenants for the remaining restaurant/retail space and the development should commence in the Spring.

Larkswood Leisure Park, Chingford

Following our selection by Waltham Forest Borough Council to develop this 70,000 sq ft leisure park, pre-lets have been agreed with a Greenalls healthclub, Jigsaw nursery and Bass for a public house. Terms have also been agreed to forward fund the development, which should commence during the first half of the year.

Below Channons Hill Retail Park, Bristol Right Wyrley Brook Retail Park, Cannock





Xscape

Fuelled by the ongoing success of Milton Keynes, a dedicated team has completed the generic designs to commence the roll out programme of the Xscape concept, to selective European locations within the United Kingdom, Germany and Benelux.

Xscape, Milton Keynes

The construction is progressing both on time and on budget, ready to open at the end of May 2000. Many of the proposed occupiers are creating new and diverse concepts for Xscape and we are encouraged by the level of tenant interest. The scheme is anticipated to open approximately 95% pre-let.

Xscape, Castleford

Xscape has entered into an exclusivity agreement for the development of a further Xscape for the UK. The scheme is approximately 500,000 sq ft gross, broadly similar to the successful format of the Milton Keynes Xscape. The Castleford Xscape is located alongside the Freeport Leisure factory outlet village and is adjacent to Junction 32 of the M62 motorway. The development already benefits from outline planning permission and plans are to open in late 2002.

Xscape, Ruhr

An agreement has been reached with the Town of Castrop-Rauxel to exclusively support the first Xscape in Continental Europe. Castrop-Rauxel is located 12km from Dortmund and as part of the “Ruhrgebeit” benefits from approximately 3.2 million people within a 20 minute drive time. The development will extend the Milton Keynes concept to include a hotel, Imax theatre and other attractions up to a maximum potential development area of 900,000 sq ft.

Above and right Proposed interiors of Xscape, Milton Keynes

Principal Properties

Value	Sector	Tenure	sq ft (sq m)	Principal tenants
In excess of £30m				
Pallasades Shopping Centre Birmingham	In-town Centre	Leasehold	300,000 (27,881)	Argos, Austin Reed, Boots, HMV, JJB Sports, New Look, Woolworths
Shopping City, Wood Green London	In-town Centre	Freehold	570,000 (52,973)	Argos, Boots, C&A, Cine-World, Ottakars, Pearsons Dept Store, Wilkinsons, W H Smith
Xscape Milton Keynes	Leisure and Retail		410,000 (38,104)	Real snow indoor ski-centre, Healthland Fitness Centre, 16-screen Cine-World, 'City Limits' Scottish and Newcastle Family Entertainment Centre, TMS Quiksilver
Ashley Centre Epsom	In-town Centre	Leasehold	350,189 (32,545)	Dickens & Jones, Gap, Hennes, Marks & Spencer, Next, Superdrug, Waitrose, W H Smith
Howgate Shopping Centre Falkirk	In-town Centre	Freehold	170,000 (15,799)	Argos, Boots, Dorothy Perkins, Marks & Spencer, MVC, New Look, River Island, Superdrug, Wallis, Woolworths
Renfrew Retail Park Glasgow	Retail Park	Freehold	220,000 (20,446)	B&Q, Carpetright, Comet, Harveys, JJB Sports, Matalan
Selborne Walk, Walthamstow	In-town Centre	Leasehold	266,000 (24,721)	Bhs, Dixons, Etam, Our Price, Poundland, River Island, Somerfield, Superdrug
Trinity Centre, Aberdeen	In-town Centre	Feuhold	200,000 (18,587)	Argos, Debenhams, HMV, Ottakars, Superdrug
Westway Shopping Park Greenford	Retail Park	Freehold	120,000 (11,152)	Boots, Holiday Hypermarket, McDonalds, Next, Outfit, SportsSoccer
Wembley Retail Park Wembley	Retail Park	Freehold	260,000 (24,163)	Allied Carpets, Carpetright, Comet, Furnitureland, Harveys, MFI
Sauchiehall Centre Glasgow	In-town Centre	Feuhold	180,000 (16,729)	Argos, Clinton Cards, Healthland, JJB Sports, Superdrug, TK Maxx, W H Smith
£20m-£30m				
St Andrew's Quay Hull	Retail Park	Freehold	179,000 (16,636)	Comet, DFS, Allied Leisure Bowl, Focus, Halfords, UCI Cinemas
Liberty 2 Romford	In-town Centre	Leasehold	320,000 (29,740)	Allsports, Jeffrey Rogers, McDonalds, Mecca Bingo, Odeon Cinema, Peacocks Sainsbury's Superstore, Toni & Guy
Alhambra Shopping Centre Barnsley	In-town Centre	Leasehold	170,000 (15,799)	Allsports, Mothercare, MVC, Next, Peacocks, Wilkinsons, Woolworths
Beckton Retail Park London	Retail Park	Freehold	140,000 (13,011)	Homebase, JJB Sports, Landmark, Matalan, Poundstretcher

Value	Sector	Tenure	sq ft (sq m)	Principal tenants
£10-20m				
St Andrew House Glasgow	Retail Office	Freehold	92,500 (8,597)	Atlantic Telecom, Burger King, Pret à Manger, Thomas Cook, TSB
Junction 10 Retail Park Glasgow	Retail Park	Leasehold	97,000 (9,015)	Carpetright, Landmark, Mecca Bingo, MFI
Wrexham Industrial Estate Wrexham	Industrial	Freehold	503,000 (46,747)	Barlow Handling, Cookson, Duracell, Gillette UK, Porvair Technology
Wyrley Brook Retail Park Cannock	Retail Park	Freehold	105,000 (9,758)	Allied Carpets, B&Q, Kingsway
Lancaster Retail Park Lancaster	Retail Park	Freehold	103,000 (9,572)	Carpetright, Fads, Harveys, JJB Sports, MFI, Wickes
Manor Park Estate Runcorn	Industrial	Freehold	336,610 (31,283)	Churchills Stairlifts, Fresenius, Paxar Europe, Pourshins, Warburtons, Whitford Plastics
10 Lower Grosvenor Place	Office	Leasehold	21,000 (1,952)	Capital and Regional Properties plc
Eldon Garden Shopping Centre Newcastle	In-town Centre	Leasehold	45,000 (4,182)	Austin Reed, Sony Centre, The Pen Shop, The Pier, Wolford
Springvale Industrial Estate Cwmbran	Industrial	Freehold	309,000 (28,717)	ABB Power Construction, Cyril Luff, Initial Services, Karavale Enterprises, McKecknie, Rentokil
Astmoor Industrial Estate, Runcorn	Industrial	Freehold	385,839 (35,859)	Alma Products, Norton Healthcare, P&W Printers, Shandon Scientific, Steripak
Deeside Industrial Estate Deeside	Industrial	Freehold	247,500 (23,002)	Hydro Coatings, Kimberly Clark
£4m-£10m				
Bognor Regis Retail Park	Retail Park	Freehold	62,000 (5,762)	Halfords, Harveys, Landmark, LIDL
Channons Hill Retail Park Bristol	Retail Park	Freehold	59,000 (5,483)	Currys, Great Mills, LIDL
Twelve Quays Birkenhead	Industrial	Freehold	87,252 (8,109)	Burall Carwood, CML Group, LJMU
Europa Trading Estate Kearsley	Industrial	Freehold	125,908 (11,708)	Foseco (GB), Health & Diet Food Company, Lansing Linde, The Co-operative Bank

Our People

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Some of our people . . .

01 Jonathan Cheetham Centre Manager (left) and Mark Bourgeois Head of Asset Management **02** Sarah Powell Property Accounts Manager **03** Anton Manuelpillai Management Accountant **04** Jean Thomson Accounts Manager **05** (from left): Simon Berry Director, Xscape; Andrew Lewis-Pratt Executive Director; David Sterland General Manager, Xscape; Graham Inglis Finance Manager; Charlotte MacLeod Leisure Leasing; Peter Popper Head of Construction Management **06** Jim Adams Group Leasing **07** Sarah Carrell Head of Corporate Communications **08** Sarah-Jane Berry Head of Marketing **09** Tracey Grevett Receptionist **10** Ian Webb Senior Project Manager (centre); Karen Jenkin Secretary (foreground); Adrienne Shaw Secretary.

Board of Directors

The Board has delegated authority within specified limits to the six executive directors as the Executive Directors Committee whose function, collectively, is the overall decision making process within the Company. As outlined below in the individual biographies, each executive director also has specific responsibilities.

Executive Directors

Martin Barber Chairman, age 55
Martin Barber has been involved in commercial property as a developer and investor for over 30 years. He was a founder director of the Company in 1979. He is chairman of CenterPoint Properties Trust, a real estate investment trust, listed on the New York Stock Exchange and formerly a subsidiary of Capital & Regional. He is non-executive chairman of PRICOA Property Investment Management Ltd, a wholly owned subsidiary of The Prudential Insurance Company of America.

Roger Boyland FCA Executive Director, age 55
Roger Boyland is a chartered accountant and has been involved in commercial property for 25 years. He was a founder director of the Company in 1979. He has responsibility for the Company's financing, including banking arrangements and corporate finance, risk management and portfolio performance analysis.

Lynda Coral BSC FCA Financial Director and Company Secretary, age 38
Lynda Coral has been a chartered accountant for 15 years and a director of the Company since 1990. Lynda has overall responsibility for accounting and corporate support, including financial reporting, taxation, company secretarial, personnel, IT and office management.

Kenneth Ford BSC FRICS Executive Director, age 46
Ken Ford has been involved in commercial property for 26 years. Ken has worked with Capital & Regional since he founded the Easter Management Group Scotland in 1991. He was appointed a director of the Company in 1997 and is responsible for the in-town centre portfolio.

Andrew Lewis-Pratt BSC ARICS Executive Director, age 42
Andrew Lewis-Pratt has over 17 years experience within the retail and leisure sector. Andrew was previously chief executive of Lanham plc, prior to its acquisition by Capital & Regional in 1997. He was appointed as a director of the Company in 1997 and is responsible for the retail and leisure park portfolio, including Xscape™.

Xavier Pullen Executive Director, age 48
Xavier Pullen has been active in the property industry for over 30 years and was a founder director of the Company in 1979. He has responsibility for the Company's property portfolio strategy, including investment and development opportunities.


Martin Barber


Roger Boyland


Lynda Coral


Kenneth Ford


Andrew Lewis-Pratt


Xavier Pullen

Non-Executive Directors

Viscount Chandos#, age 47

Tom Chandos is an investment banker and venture capitalist; he is chairman of MediaKey plc and a non-executive director of a number of private companies, including Cine-UK Limited.

David Cherry BSC FRICS†#, age 62

David Cherry 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 both the UK property market and was head of the organisation for eight years.

Peter Duffy†, age 63

Peter Duffy was previously managing director of TR Property Investment Trust PLC. He is also chairman of European City Estates N.V.

Martin Gruselle FCA†#, age 62

Martin Gruselle is a chartered accountant with wide experience in corporate finance. He acts as chairman of the Remuneration and Audit Committees. He is also a non-executive director of Scarborough Property Company plc.

†Member of Audit Committee

#Member of Remuneration Committee

Viscount Chandos

David Cherry

Peter Duffy

Martin Gruselle

Financial Review

Financial Statements

Accounting Developments

Financial Reporting Standard ("FRS") No.15 (Tangible Fixed Assets) is not effective for accounting periods ending before March 2000, but its impact on the Group's financial statements and policies has been reviewed. The FRS excludes investment properties but applies strict criteria to the capitalisation of development costs including interest. The Group's method to estimate the period of development as disclosed in accounting policies has been restated from prior years with no impact on profit or net assets.

The Group's policy on calculation of gain or loss on sale of investment properties by reference to valuation has been changed to refer to the last financial year-end rather than a half-year valuation. There is no effect on the results of the prior year as a result of the change in policy.

Consideration is being given to the potential effect of the proposals issued by the Accounting Standards Board, namely the Discussion Paper on Reporting Financial Performance, Leases: Implementation of a New Approach, and the Exposure Draft on Deferred Tax (FRED 19).

Profit and Loss Account

Results for the Year

Profit before tax has increased to £12.8m (1998: £11.5m) which includes gains of £2.1m (1998: loss £38,000) on investment portfolio sales. Profit in the second half of the year is £6.2m compared to £6.6m reported for the first half.

Rental Income

Group rental income increased by 19% to £53.6m as shown in Table 1. Also shown is the effect of the changes during 1999 on gross passing rent to arrive at £62.3m at the year end.

The gross passing rent at the end of 1999 does not include additional rent of £5.4m (1998: £2.2m) committed under agreements for lease executed to date.

Net Property Costs

The increase of £1.7m compared to the previous year is due mainly to the effect of acquisitions in 1999 and the full year effect of acquisitions made in 1998.

Administrative Expenses

The increase in general administrative costs reflects the growth in the total property portfolio during the last two years. Underlying administrative costs represent 0.7% (1998: 0.9%) of the total property portfolio. Performance related bonus payments to employees and executive directors, including an allocation for the profit sharing scheme, totalled £1.7m (1998: £1.4m).

Profit before tax has increased to £12.8m (1998: £11.5m) which includes gains of £2.1m (1998: loss £38,000) on investment portfolio sales. Profit in the second half of the year is £6.2m compared to £6.6m reported for the first half.

Lynda Coral Financial Director

Table 1 Group Rental Income

	1999 Rental Income £m	1999 Gross passing rent £m
Year ended 25th December 1998	44.9	46.3
Full year effect of acquisitions and disposals in 1998	5.0	–
Properties acquired in 1999	5.7	12.9
Properties sold in 1999	(0.3)	(0.4)
Net new lettings	3.0	5.1
Leases surrendered	(1.1)	(3.1)
Surrender premiums	(4.2)	–
Rent increases including reviews	0.6	1.5
Year ended 25th December 1999	53.6	62.3

Net Interest Payable

Net interest costs have increased by £7.8m during the year reflecting the financing of acquisitions by additional bank debt. Approximately £2m (1998: £856,000) of interest has been capitalised during the year, principally in relation to Shopping City, Wood Green; Eureka Leisure Park, Ashford; Xscape, Milton Keynes; and the industrial portfolio.

Taxation

The taxation charge is 3% of profit before tax due to the utilisation of capital allowances, capital losses and excess management expenses brought forward. At the end of 1999 there is approximately £365,000 (1998: £200,000) of advance corporation tax which has been written off. The tax written down value of assets subject to capital allowance claims is estimated at approximately £38m (1998: £28m) and unutilised losses carried forward have been reduced to £228,000 (1998: £4.3m).

Earnings and Dividends per Share

Earnings per share on revenue activities have fallen to 10.2p from 12.2p but would show an increase to 9.9p from 7.3p if surrender premiums were excluded. Profit attributable to shareholders increased from £11.1m in 1998 to £12.0m this year and earnings per share rose from 12.1p to 12.2p. The total dividend of 5.0p per share is more than twice covered by profit on revenue activities.

Balance Sheet

Property Assets

Table 2 summaries the movement in the Company's total property portfolio during the year.

Joint Ventures and Associates

Table 3 shows the movement during 1999 in the Group's total investment in joint ventures and associates. As a result of buying in the industrial properties formerly owned in partnership with Phillips & Drew Fund Management Limited the investment in associates has been realised.

In accordance with FRS 9, the Xscape Milton Keynes Partnership is treated as a joint arrangement that is not an entity and the Group's financial statements include its share of assets, liabilities and cash flows.

Minority Interests

Minority interests at the end of 1999 represents the participation by Peter Taylor and his associates in Easter Capital Investment Holdings.

Table 3 Joint ventures and associates

	Investment £m	Debtors after 1 year £m	1999 Total £m	1998 Total £m
Associates	–	–	–	3.4
Joint ventures	2.2	4.8	7.0	6.2
	2.2	4.8	7.0	9.6

Table 1 Property portfolio

	Investment properties £m	Properties under construction £m	Head office £m	Current property assets £m	Total £m
At 25th December 1998	646.9	7.7	–	24.4	679.0
Acquisitions	174.2	2.3	13.1	24.8	214.4
Refurbishments and development	45.2	15.3	0.6	15.7	76.8
Disposals	(14.9)	–	–	(30.2)	(45.1)
Revaluation surplus/(deficit)	52.2	4.2	(0.6)	–	55.8
At 25th December 1999	903.6	29.5	13.1	34.7	980.9

Finance

Summary

The Group's borrowings at 25th December 1999 were £603.0m (1998: £366.1m) including £24.6m (1998: £24.6m) of Convertible Subordinated Unsecured Loan Stock (CULS). Borrowings by associates and joint ventures were an additional £5.3m (1998: £16.9m). Net cash balances were £7.4m (1998: £5.5m) and the Group had approximately £21.5m (1998: £59.8m) of undrawn secured facilities. The increase in borrowing during 1999 reflects the financing of acquisitions and the refurbishment of and improvements to properties during the year net of property disposals.

The increase in the fully diluted level of gearing to 134% (1998: 93%) and the reduction to 45% (1998: 79%) in the percentage of debt on which interest rates have been hedged reflect the strategic initiatives under consideration as set out in the Chairman's Statement.

Financing Strategy

The Group has a financing strategy with banks which, in the opinion of the Directors, have experienced property teams and long-term commitment to the UK property market. The Group's strategy is to enter into extendable secured revolving credit facilities with broadly similar terms and covenants. These facilities provide the Group with the flexibility to draw down and repay borrowings within the covenant parameters, and provide a cost efficient structure which allows for the addition and disposal of properties as security. Project loan finance is separately arranged as required for specific developments and joint ventures.

Interest Rate Hedging Strategy

The Group's strategy is to enter into mainly five year interest rate swaps on a rolling basis, which provides both protection against any sudden rise in interest rates and scope to take advantage of fluctuating rates on expiring swaps and unhedged borrowings. The balance between borrowing on floating and hedged interest rates is continually reviewed in the light of capital market conditions and business requirements.

Fixed and swapped interest rates at 25th December 1999 applied to borrowings of £272.4m (1998: £287.8m) with the balance of £330.6m (1998: £78.3m) being at variable interest rates based on three month LIBOR. The weighted average interest rate cost for fixed and swapped borrowings at 25th December 1999, was 7.8% (1998: 7.9%) and for variable rates 6.9% (1998: 7.5%).

The weighted average interest rate cost of total borrowings at the year end has reduced to 7.3% compared to 7.8% at the end of 1998. The weighted average period for which interest rates are fixed on Group bank borrowings is 2.64 years (1998: 3.39) and 3.89 years including CULS (1998: 4.58).

Debt Valuation

A valuation was carried out by J C Rathbone Associates Limited as at 25th December 1999 and 25th December 1998, to calculate the market value of fixed rate debt instruments on a replacement basis and the expiry profile of the resulting fair value adjustment.

The increase in borrowing during 1999 reflects the financing of acquisitions and the refurbishment of and improvements to properties during the year. Rental income as a ratio to net interest payable is unchanged at 1.6 times.

Roger Boyland Executive Director

Fixed Rate Debt Instrument

Table 1 shows the market value of fixed rate debt instruments, and reflects the difference between the interest rate yield curve as at 25th December 1999 and the rates historically committed; namely the fair value adjustment.

The fair value adjustment at 25th December 1999 would have had a positive effect on net asset value of £1.5m compared to a negative effect of £11.1m at 25th December 1998. This reflects the rise in term interest rates during the year.

On the 18th November 1998, Xscape Milton Keynes Partnership, in which the Group has a 50% interest, entered into a five year interest rate swap for £25m, with a forward start date of 24th July 2000. The Group's share of this financial instrument is not included in Table 1, but if it had been, the fair value adjustment would be more positive by £607,000 (1998: negative £143,000).

The fair value adjustment represents approximately 0.25% (1998: 3%) of Group borrowings and has a notional beneficial effect on net asset value per share of 1.0p at 25th December 1999 (1998: adverse 7p).

Debt Maturity

Table 2 shows the maturity profile of Group borrowings and undrawn secured facilities at 25th December 1999. Over 93% (1998: 97%) of bank borrowings had the benefit of "evergreen" arrangements which we expect will extend maturity dates beyond the earliest repayment date shown. The evergreen arrangements provide a minimum of two years' notice of repayment.

Gearing

Net debt to capital employed has risen to 149% at the year end (1998: 107%) and reduces to 134% (1998: 93%) assuming the conversion of the loan stock to equity.

Rental income as a ratio to net interest payable including capitalised interest for 1999 is unchanged at 1.6 times when calculated excluding surrender premiums. The margin by which rental income exceeds total net interest payable has remained at approximately £20m for the year ended 25th December 1999.

Table 1 Fixed rate debt instrument

	Book value £m	Notional principal £m	Market value £m	Fair value adjustment 1999 £m	Fair value adjustment 1998 £m
CULS	24.6	n/a	24.6	–	0.7
Bank borrowings	15.3	n/a	15.3	–	0.8
Interest rate swaps	n/a	232.5	231.0	(1.5)	9.8
	39.9	232.5	270.9	(1.5)	11.3
Minority Interests				–	(0.2)
Fair value adjustment attributable to Group				(1.5)	11.1
Net of tax at 30% (1998: 31%)				(1.1)	7.7

The expiry profile of the fair value adjustment is as follows:

	1999 Fair value adjustment £m	1998 Fair value adjustment £m
1999	–	3.7
2000	(1.4)	3.1
2001	(2.2)	2.1
2002	1.2	1.4
2003	0.9	0.5
2004-2016	–	0.5
Total	(1.5)	11.3

Table 2 Repayment

	Drawn Earliest £m	Drawn "Evergreen" £m	Undrawn Earliest £m	Undrawn "Evergreen" £m
2000	3.52	–	12.59	–
2001	65.71	52.50	5.85	5.85
2002	396.95	396.75	3.05	3.05
2003	33.20	33.00	–	–
2004	57.20	57.00	–	–
2006	12.77	–	–	–
2009	9.00	–	–	–
Bank borrowings	578.35	539.25	21.49	8.90
2006/16 convertible loan stock	24.64	–	–	–
	602.99	539.25	21.49	8.90

Five Year Record

for the years ended 25th December 1995 to 25th December 1999

	1999	1998	1997	1996	1995
No. of shares in issue (million)	98.266	98.255	76.399	45.595	45.595
Diluted no. of shares in issue (million)	110.678	110.667	88.668	58.181	45.595
Net assets per share‡	376.4p	320.6p	272.0p	223.1p	186.2p
Net assets per share growth	17.4%	17.9%	†27.6%	19.8%	1.5%

	£000	£000	£000	£000	£000
Equity shareholders' funds	392,566	330,816	217,299	104,701	84,882
Minority interests	4,341	2,101	933	2,458	1,431
Non-equity funding by joint arrangement partners	4,000	3,250	–	–	–
Capital employed	400,907	336,167	218,232	107,159	86,313
Borrowings	577,891	340,926	237,036	143,872	76,674
Cash at bank	7,388	5,476	9,229	6,261	2,431
Net bank debt	570,503	335,450	227,807	137,611	74,243
Convertible loan stock	24,041	23,950	23,840	25,108	–
Net debt	594,544	359,400	251,647	162,719	74,243
Net debt/capital employed‡	134.4%	93.3%	94.1%	104.3%	86.0%

	£000	£000	£000	£000	£000
Rental income	53,597	44,910	28,857	17,834	10,129
Net rental income	45,512	38,507	23,728	14,158	8,040
Net interest payable***	32,018	24,057	16,788	9,153	4,552
Profit on ordinary activities before taxation**	12,838	11,481	11,083	6,051	4,743
Earnings per share*	12.2p	12.1p	15.4p	11.9p	8.7p
Dividend per share	5.0p	4.25p	3.5p	3.0p	2.5p

†A Placing and Offer in May 1997 of 28,159,526 new Ordinary shares at 215p resulted in a dilution of 1997 diluted net assets per share to 213.1p. The growth in net assets per share for 1997 is calculated after adjusting for the effect of this dilution on 1997.

‡Assuming conversion of the convertible loan stock to equity.

*Earnings per share for prior years have been adjusted to reflect the two for seven rights issue in April 1998.

**As adjusted for Financial Reporting Standard No. 9.

***Excludes share of net interest payable of Joint Ventures and Associates.

Report on Directors’ Remuneration and Interests

Remuneration Committee

The Remuneration Committee (“the Committee”) has been constituted by the Board of the Company and consists of not less than three non-executive directors nominated by the full Board. The Committee meets at least twice a year, the quorum for a meeting being at least two members. The present members are Tom Chandos, David Cherry and Martin Gruselle (Chairman).

The Committee is responsible for setting the remuneration policy for the executive directors and senior employees and ensuring compliance with best practice provisions. The Committee determines the terms of the service agreements, salaries and discretionary bonus payments, as well as deciding on the grant of share options for the executive directors. The recommendations made by the Executive Directors Committee for the grant of share options to other employees require the approval of the Committee. In preparing this annual report to shareholders on behalf of the Board, the Committee has complied with relevant provisions of the Combined Code including those set out in Schedule B.

Remuneration policy

In setting the remuneration policies for the executive directors, the Committee has given full consideration to the requirements of the Combined Code appended to the Listing Rules of the London Stock Exchange including the provisions in Schedule A relating to the design of performance-related remuneration.

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

Basic salaries and benefits are reviewed annually by the Committee. The basic salaries of the executive directors were increased from 1st January 1999 and the Company’s contribution to the personal pension scheme of Lynda Coral was increased to 15%; pension contribution rates for the other executive directors remain unchanged.

Guidelines for determining the level of discretionary bonus payable to the executive directors have been in place for a number of years. Outperformance of growth in net asset value per share is linked to predetermined percentages of pre-tax profits or to predetermined percentages of the increase in net shareholders’ funds generated in the year. The Committee uses the Monthly Index of All Properties Capital Value published by the Investment Property Databank as a benchmark against which to compare growth in net asset value per share. If the maximum level of outperformance in either case is achieved, the higher of 10% of pre-tax, pre-bonus profits or 2.2% of the increase in net shareholders’ funds may be allocated as discretionary bonus. The Committee will not necessarily allocate the whole of the amount determined under the criteria in any year.

In 1999, net asset value per share has increased by 17.4% (year on year) compared with an increase of 6.2% in the benchmark index; this level of performance generates a discretionary bonus of 1.2% of the increase in net shareholders’ funds in the year. The Committee has decided to allocate all of the discretionary bonus for 1999 together with £81,000 from the prior year’s unallocated bonus pool, a total of £790,000.

The allocation of the total amount of discretionary bonus between the executive directors has been made by the Committee.

Each of the executive directors has a service agreement which can be terminated on one year’s notice by either party; the terms of these agreements do not allow the executive directors to engage in any other business outside the Company except where prior written consent from the Committee is obtained.

The fees of the non-executive directors are determined annually by the Board acting on the recommendations of the Executive Directors Committee within the limits set by the Company’s Memorandum and Articles of Association and using external market research for guidance. The formal appointment of Peter Duffy was renewed on 26th May 1998 while those of Tom Chandos and Martin Gruselle were renewed on 1st January 2000 in each case for a further three year period. The appointment of David Cherry expires on 4th April 2000 and will be renewed for a further three year term from that date. Martin Gruselle and David Cherry offer themselves for re-election at the Annual General Meeting. The non-executive directors do not receive share options or any other forms of remuneration from the Company.

Remuneration

The remuneration of the directors is analysed below:

	Salary and fees		Discretionary bonus		Pension contributions		Other benefits†		Total	
	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000
M. Barber	198	190	140	170	40	38	20	20	398	418
X. Pullen	180	150	140	140	36	30	22	16	378	336
K. Ford	175	145	140	135	26	22	17	10	358	312
A. Lewis-Pratt	175	145	140	135	26	22	22	20	363	322
R. Boyland	155	150	125	140	31	30	23	20	334	340
L. Coral	115	110	105	100	17	10	14	14	251	234
	998	890	790	820	176	152	118	100	2,082	1,962
M. Gruselle	32	30							32	30
D. Cherry	22	20							22	20
T. Chandos*	37	27							37	27
P. Duffy	22	20							22	20
	113	97							113	97
Total	1,111	987	790	820	176	152	118	100	2,195	2,059

*Including fees of £15,000 received from Easter Holdings Limited and Easter Capital Investment Holdings Limited for services as a non-executive director.

†Other benefits include the taxable value of private medical insurance and company car, or if a director has opted out of the Company car scheme, a salary supplement in lieu of a company car.

Directors' interests

The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) are beneficially interested in the Ordinary share capital of the Company as follows:

	Ordinary shares of 10p each at 25th December		6.75% convertible subordinated unsecured loan stock 2006/16 at 25th December	
	1999 Shares	1998 Shares	1999 £	1998 £
M. Barber	2,675,820	2,343,701	35,394	35,394
X. Pullen	1,003,179	981,060	23,693	23,693
R. M. Boyland	506,119	504,000	13,000	13,000
L. S. Coral	3,463	1,335	25	25
K. C. Ford	377,639	368,998	–	–
A. Lewis-Pratt*	112,787	286,634	–	–
M. H. Gruselle	50,653	50,653	943	943
Viscount Chandos	27,926	7,926	3,313	3,313
P. J. Duffy	–	–	–	–
D. N. Cherry	4,138	3,363	–	–
Total at 25th December 1999	4,761,724	4,547,670	76,368	76,368

*A. Lewis-Pratt's shareholding in 1998 included a non-beneficial holding which does not require disclosure under the Companies Act 1985.

There have been no changes to the directors' interests since 25th December 1999, except K. Ford who purchased an additional 4,800 Ordinary shares of 10p each on 22nd February 2000 and M. Barber who purchased 50,000 Ordinary shares of 10p each on 24th February 2000.

Share incentives

From time to time the Committee has recommended to the Board that options should be granted to executive directors and other employees under the Company's Executive Share Option Schemes.

In 1999 options were granted over a total of 672,900 Ordinary shares under the 1998 Discretionary Share Option Schemes, as follows:

Date	Exercise price	Directors	Executives	Total
23rd February 1999	191.5p	175,000	497,900	672,900

The table below gives details of the outstanding options granted to the executive directors:

Director	Date granted	Exercise conditions met	Exercise price	Options over Ordinary shares of 10p each: At beginning of year	Issued in year	At end of year
M. Barber	22nd December 1993	Yes	168.9p*	136,878	–	136,878
	28th October 1994	Yes	131.4p*	104,263	–	104,263
	18th June 1997	Yes	226.4p*	50,582	–	50,582
				291,723	–	291,723
R. Boyland	22nd December 1993	Yes	168.9p*	136,878	–	136,878
	28th October 1994	Yes	131.4p*	104,263	–	104,263
	18th June 1997	Yes	226.4p*	50,582	–	50,582
	15th May 1998	Not yet	279.5p	100,000	–	100,000
				391,723	–	391,723
X. Pullen	22nd December 1993	Yes	168.9p*	136,878	–	136,878
	28th October 1994	Yes	131.4p*	104,263	–	104,263
	18th June 1997	Yes	226.4p*	50,582	–	50,582
	15th May 1998	Not yet	279.5p	100,000	–	100,000
				391,723	–	391,723
L. Coral	22nd December 1993	Yes	168.9p*	50,180	–	50,180
	28th October 1994	Yes	131.4p*	26,066	–	26,066
	21st October 1996	Yes	193.2p*	78,197	–	78,197
	18th June 1997	Yes	226.4p*	50,582	–	50,582
	15th May 1998	Not yet	279.5p	100,000	–	100,000
	23rd February 1999	Not yet	191.5p	–	25,000	25,000
				305,025	25,000	330,025
K. Ford	18th June 1997	Yes	226.4p*	151,747	–	151,747
	15th May 1998	Not yet	279.5p	175,000	–	175,000
	23rd February 1999	Not yet	191.5p	–	75,000	75,000
				326,747	75,000	401,747
A. Lewis-Pratt	18th June 1997	Yes	226.4p*	151,747	–	151,747
	15th May 1998	Not yet	279.5p	175,000	–	175,000
	23rd February 1999	Not yet	191.5p	–	75,000	75,000
				326,747	75,000	401,747

*Exercise price and number of options have been adjusted since being granted for subsequent share capital reorganisations, the Rights Issue in April 1994, the Placing and Open Offer in May 1997 and the Rights Issue in April 1998.

Share incentives continued

The table below gives details of potential gains on the options granted to the executive directors:

	M. Barber £000	R. Boyland £000	X. Pullen £000	L. Coral £000	K. Ford £000	A. Lewis-Pratt £000
Options outstanding at the year end:						
Total subscription price	483	762	762	712	976	976
Potential profit on exercise of options:*						
Options where exercise condition has been met	132	132	132	50	–	–
Options where exercise condition has yet to be met	–	–	–	4	12	12
Total at year end	132	132	132	54	12	12

* Using a share price of 207.5p as at 29th February 2000.
The Company's share price was 229p on 25th December 1999. During the year the share price ranged from 167.5p to 296.5p.
There has been no change in directors' interests in options since 25th December 1999.

Options granted prior to 1997, 13,000 options granted to each of K. Ford and A. Lewis-Pratt in June 1997 and those granted in 1998 and 1999 can only be exercised within the seven year period commencing three years after the date of grant. All other options granted in 1997 can only be exercised within a four year period commencing three years after the date of grant.

All the options granted require the achievement of growth in net assets per share above predefined targets. Options can only be exercised if growth in fully diluted net asset value per share during any three year period prior to the expiry date of the option exceeds the growth in the Monthly Index of Capital Values for All Properties published by the Investment Property Databank for the same period. An additional exercise criteria for options granted in 1998 and subsequent years requires the total return for shareholders over any three year period to exceed the increase over the same period in the Index of Total Returns for the Property Sector as shown in the FT-SE Actuaries Indices published in the Financial Times.

A total of 62,159 shares with a value of £146,695 were issued to eligible employees in April 1999 under the Capital and Regional Properties plc approved profit sharing scheme including 2,119 shares issued to each executive director. The Committee has set aside the sum of £180,000 out of the profits of the current year to be allocated under this scheme or any other proposed replacement scheme.

Martin Gruselle Chairman
Remuneration Committee
2nd March 2000

Corporate Governance Statement

Introduction

The Company is required to comply, for the accounting period ended 25th December 1999, with "The Combined Code – Principles of Good Governance and Code of Best Practice" ("the Combined Code").

Governance: principles and procedures

Details of how the Company has applied the Code are as follows for each of the Code's four distinct areas:

Directors

The Company is controlled through the Board of Directors which is chaired by Martin Barber and consists of six executive and four non-executive directors, thus providing an appropriate balance of power and authority. The non-executive directors are all independent of the Group. During the year the internal management and reporting structure was formalised.

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

Details of all the non-executive directors are set out on page 29. Martin Gruselle has been nominated as the senior independent director as required by the Code.

The Board meets at least quarterly and each member receives up-to-date financial and commercial information prior to each meeting, in particular quarterly management accounts and schedules of property income and outgoings (each with comparisons against budget), schedules of acquisitions and disposal 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 of the Articles which requires them to offer themselves for re-election at least once every three years. Any proposal to appoint new directors to the Board is discussed at a full Board meeting and all Board members are given an opportunity to meet the individual concerned prior to any formal decision being taken. It is currently considered inappropriate to establish a nomination committee.

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

Directors' remuneration

The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each executive director. A proportion of all executive directors' remuneration consists of cash bonuses and share options (each linked to corporate and individual performance achievements) the levels of which are determined by the Remuneration Committee.

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 is set out in the report on Directors' Remuneration and Interests on pages 35 to 38.

Shareholder relations

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

Accountability and audit

The Company's annual report and accounts includes detailed reviews of the activity at each of the principal properties within the portfolio each year, together with a detailed review of its financial results and financing position. In this way the Board seeks to present a balanced and understandable assessment of the Company's position and prospects.

Internal control

The Group has adopted the transitional approach for the internal control aspects of the Combined Code as set out in the letter from the London Stock Exchange to listed companies dated 27th September 1999.

The Board confirms that it has established the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code".

The Group operates a system of internal financial control which is designed to provide reasonable but not absolute assurance against misstatement or loss. There is a comprehensive system of procedures in place for financial reporting to the executive directors and the Board. These procedures include the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing. Authority limits are clearly defined throughout the organisation including the schedule of matters reserved for the approval of the Board or a specified Committee of the Board or individual directors. The Board has overall responsibility for the system of internal financial control. The directors carried out their review of the current system and updated the documentation of key risk, operational controls and procedures relating to different areas of the business. In this review, that is repeated at least once a year, the directors have considered the effectiveness of the internal financial control framework.

The Group does not currently have an internal audit function but the need for one is reconsidered by the Audit Committee from time to time.

Going concern

In compliance with the Listing Rules of the London Stock Exchange 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.

Audit Committee

The Company's Audit Committee, consisting of not less than three non-executive directors, has written terms of reference under which it is responsible for the relationship with the Group's auditors and for reviewing in depth the Company's financial report, circulars to shareholders and internal controls. The terms of reference were reviewed and updated in 1999 to ensure the Audit Committee's duties adequately cover all areas identified by the Code, including review of cost effectiveness and the amount of non-audit services provided to the Group. The Audit Committee meets prior to Board meetings to consider the Interim and Annual results and on an ad hoc basis at other times during the year. In 1999 the Committee met three times.

Directors' responsibilities statement

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit and loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonably and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 25th December 1999. The directors also confirm that applicable accounting standards and the Companies Act 1985 have been followed with the exception of the departures disclosed and explained in note 1 to the financial statements and that the financial statements have been prepared on the going concern basis.

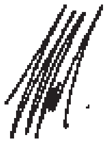
The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and the Group and prevent and detect fraud and other irregularities.

Compliance statement

The Company is committed to high standards of corporate governance. During 1999, the terms of reference of the Audit Committee were reviewed and updated to comply with Code provision D3.2. As permitted by the London Stock Exchange, the Company has complied with Code provision D.2.1 by adopting the transitional approach as set out in the letter from the London Stock Exchange to listed companies dated 27th September 1999.

Other than disclosed above, throughout the year ended 25th December 1999, the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange.

By Order of the Board



L. Coral Secretary
2nd March 2000

Auditors' Report

to the members of Capital and Regional Properties plc

We have audited the financial statements on pages 42 to 60 which have been prepared under the accounting policies set out on pages 47 and 48.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 40 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on page 40 reflects the Group's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, 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 other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with 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. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the group as at 25th December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche Chartered Accountants and Registered Auditors
Hill House, 1 Little New Street, London EC4A 3TR
2nd March 2000

Consolidated Profit and Loss Account

for the year ended 25th December 1999

	Notes	1999 £000	1998 £000
Turnover: group rental income and share of joint ventures' turnover	2	60,211	52,732
Less: share of joint ventures' turnover	18	(6,614)	(7,822)
Group rental income		53,597	44,910
Net property costs		(8,085)	(6,403)
Net rental income		45,512	38,507
Profit on the sale of trading and development properties	3	1,646	517
		47,158	39,024
Administrative expenses	4	(7,163)	(6,259)
		39,995	32,765
Other operating income	5	955	669
Group operating profit		40,950	33,434
Share of operating profit in joint ventures	18	594	789
Share of operating profit in associates	19	100	684
		41,644	34,907
Income from listed investments		1,337	1,095
Interest receivable and similar income	6	719	807
Interest payable and similar charges	7	(33,005)	(25,290)
Profit on revenue activities		10,695	11,519
Profit/(loss) on sale of investment properties	3	1,284	(38)
Profit on sale of investment		859	–
Profit on ordinary activities before taxation	8	12,838	11,481
Taxation	11	(409)	(347)
Profit on ordinary activities after taxation		12,429	11,134
Equity minority interests	29	(426)	(42)
Profit attributable to the shareholders of the Company	12	12,003	11,092
Equity dividends paid and payable	13	(4,913)	(4,176)
Profit retained in the year	28	7,090	6,916
Earnings per share	14	12.2p	12.1p
Earnings per share – diluted	14	12.2p	12.1p
Earnings per share on revenue activities	14	10.2p	12.2p

The results of the Group for the year related entirely to continuing operations within the meaning of Financial Reporting Standard No. 3.

The notes on pages 47 to 60 form part of these financial statements.

Note of Historical Cost Profits and Losses

for the year ended 25th December 1999

	1999 £000	1998 £000
Reported profit on ordinary activities before taxation	12,838	11,481
Realisation of property revaluation surplus of previous years	2,136	1,313
Realisation of other investment revaluation deficit of previous years	(774)	–
Realisation of property revaluation deficit of previous years in joint ventures	–	(54)
Historical cost profit on ordinary activities before taxation	14,200	12,740
Historical cost profit for year retained after taxation, minority interests and dividends	8,452	8,010

Statement of Total Recognised Gains and Losses

for the year ended 25th December 1999

	Notes	1999 £000	1998 £000
Share of unrealised surplus on valuation of investment properties	28	54,520	48,694
Share of unrealised deficit on valuation of other fixed assets	28	(596)	–
Share of unrealised surplus on valuation of properties in joint ventures	18	46	87
Share of unrealised surplus on valuation of properties in associates	19	–	113
Revaluation surplus/(deficit) on other investments	17	675	(979)
Tax on revaluation surpluses realised in year		–	(165)
Exchange differences		1	–
		54,646	47,750
Profit attributable to shareholders		12,003	11,092
Total recognised gains and losses relating to the year		66,649	58,842

Reconciliation of Movements in Shareholders' Funds

for the year ended 25th December 1999

	Notes	1999 £000	1998 £000
Profit for the year attributable to shareholders of the Company		12,003	11,092
Equity dividends paid and payable	13	(4,913)	(4,176)
Profit retained in the year		7,090	6,916
Share capital and share premium issued in year (net of expenses)		14	59,128
Goodwill written off		–	(277)
Other recognised gains and losses relating to year (see above)		54,646	47,750
Net addition to shareholders' funds		61,750	113,517
Opening shareholders' funds		330,816	217,299
Closing shareholders' funds		392,566	330,816

The notes on pages 47 to 60 form part of these financial statements.

Consolidated Balance Sheet

as at 25th December 1999

	Notes	1999 £000	1999 £000	1998 £000	1998 £000
Fixed assets					
Property assets	15		933,140		654,606
Other fixed assets	16		14,073		844
			947,213		655,450
Other investments	17		21,120		22,000
Investment in joint ventures	18				
share of gross assets			8,650		7,715
share of gross liabilities			(6,428)		(5,448)
			2,222		2,267
Investment in associates	19		5		3,446
			970,560		683,163
Current assets					
Property assets	20	34,660		24,412	
Debtors:					
amounts falling due after more than one year	21	4,840		3,914	
amounts falling due within one year	21	40,389		18,802	
Cash at bank and in hand	22	7,388		5,476	
		87,277		52,604	
Creditors: amounts falling due within one year	23	(58,178)		(35,120)	
Net current assets			29,099		17,484
Total assets less current liabilities			999,659		700,647
Creditors: amounts falling due after more than one year (including convertible unsecured loan stock)	24		(598,752)		(364,480)
Net assets			400,907		336,167
Capital and reserves					
Called up share capital	27		9,827		9,826
Share premium account	28		161,876		161,863
Revaluation reserve	28		184,836		131,553
Other reserves	28		591		591
Profit and loss account	28		35,436		26,983
Equity shareholders' funds			392,566		330,816
Equity minority interests	29		4,341		2,101
Non-equity funding by joint arrangement partners	30		4,000		3,250
Capital employed			400,907		336,167
Net assets per share adjusted for minority interests and non-equity funding	31		399.5p		336.7p
Net assets per share adjusted for minority interests and non-equity funding – diluted	31		376.4p		320.6p

The financial statements were approved by the board of directors and signed on their behalf on 2nd March 2000 by:

M. Barber
L. Coral

The notes on pages 47 to 60 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 25th December 1999

	Notes	£000	1999 £000	£000	1998 £000
Net cash inflow from operating activities	36(a)		42,269		31,303
Dividends received from joint ventures			300		3,526
Dividends received from associates			714		660
Returns on investments and servicing of finance					
Dividends received from listed investments		1,095		935	
Interest received		686		811	
Interest paid		(32,291)		(24,065)	
Dividend paid to minority interest		(87)		–	
Loan arrangement costs		(331)		(535)	
			(30,928)		(22,854)
			12,355		12,635
Taxation					
UK corporation tax paid		–		(315)	
UK advance corporation tax paid		–		(606)	
UK income tax deducted at source		(66)		(90)	
UK income tax recovered		161		166	
USA tax paid		–		(35)	
USA withholding tax recovered		17		–	
			112		(880)
Net operating cash flow			12,467		11,755
Capital expenditure and financial investment					
Payments for:					
Additions to investment properties		(230,024)		(202,465)	
Additions to properties held as current assets		(34,205)		(27,759)	
Additions to other tangible assets		(13,794)		(738)	
Additions to listed investments		–		(2,328)	
Investment in associate		–		(270)	
Loans to joint ventures		(4,884)		(5,109)	
Receipts from:					
Sale of investment properties		16,225		40,371	
Sale of properties held as current assets		16,027		17,671	
Sale of other tangible assets		37		173	
Sale of investments		2,414		–	
Repayment of capital and loans from associates		2,829		–	
Repayment of loan by joint venture		4,023		4,250	
			(241,352)		(176,204)
			(228,885)		(164,449)
Acquisitions and disposals					
Additions to joint ventures			–		(725)
			(228,885)		(165,174)
Equity dividends paid			(6,141)		(1,910)
Cash outflow before financing			(235,026)		(167,084)
Financing					
Issue of ordinary share capital		14		61,198	
Expenses of share issue		–		(2,070)	
Bank loans received		349,170		200,934	
Bank loans repaid		(112,246)		(96,731)	
			236,938		163,331
Increase/(decrease) in cash	36(b)		1,912		(3,753)

The notes on pages 47 to 60 form part of these financial statements.

Company Balance Sheet

as at 25th December 1999

	Notes	£000	1999 £000	£000	1998 £000
Fixed assets					
Other investments	17		183,049		39,018
Current assets					
Debtors:					
amounts falling due after more than one year	21	95,716		59,617	
amounts falling due within one year	21	781,434		463,385	
Cash at bank and in hand		4,529		408	
		881,679		523,410	
Creditors: amounts falling due within one year	23	(173,755)		(21,592)	
Net current assets			707,924		501,818
Total assets less current liabilities			890,973		540,836
Creditors: amounts falling due after more than one year (including convertible unsecured loan stock)	24		(572,973)		(329,044)
Net assets			318,000		211,792
Capital and reserves					
Called up share capital	27		9,827		9,826
Share premium account	28		161,936		161,923
Other reserves	28		591		591
Profit and loss account	28		145,646		39,452
Equity shareholders' funds			318,000		211,792

The financial statements were approved by the board of directors and signed on their behalf on 2nd March 2000 by:

M. Barber
L. Coral

The notes on pages 47 to 60 form part of these financial statements.

Notes to the Financial Statements

for the year ended 25th December 1999

1. Accounting policies

The financial statements have been prepared in accordance with applicable UK accounting standards and, except for the non-depreciation of investment properties and the treatment of grants referred to below, with the Companies Act 1985. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties and investments, using the following principal accounting policies, which have been applied consistently:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Capital and Regional Properties plc and its consolidated entities and associated companies and joint ventures for the year ended 25th December 1999. Where necessary, the financial statements of subsidiaries 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 year are included from the date of acquisition. Goodwill on consolidation represents the difference between the purchase consideration and the fair value of net assets acquired and is capitalised in the year in which it arises and is amortised over its useful economic life.

Joint ventures, associates and joint arrangements

In accordance with Financial Reporting Standard No. 9, joint ventures are included in the accounts under the gross equity method of accounting, and associates under the net equity method. Where the Group has entered into a joint arrangement with a third party where no separate entity exists, the Group includes its proportion of assets, liabilities, income and expenditure within the Group figures. Where necessary the financial statements of associates and joint ventures are adjusted to conform with the Group's accounting policies.

Foreign currency

Balances in foreign undertakings and the results for the year are translated into sterling at the rate of exchange ruling at the balance sheet date of US$1.62 to the £ (1998: US$1.67 to the £).

Exchange differences, which arise from the translation of the share capital and reserves of foreign subsidiaries, are taken to reserves.

Foreign currency transactions of UK companies are translated at the rates ruling when they occurred. Their foreign currency monetary assets and liabilities are translated at the rate ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Depreciation

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

Land and 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. The aggregate surplus or temporary deficit below cost arising from such valuations is transferred to a revaluation reserve. Deficits that are expected to be permanent are charged to the profit and loss account.

The Group's policy is to value investment properties twice a year. On realisation any gain or loss is calculated by reference to the carrying value at the last financial year end balance sheet date and is included in the profit and loss account. Any balance in the revaluation reserve is transferred to the profit and loss account reserve. This represents a change of accounting policy from the previous year when the Group's policy was to calculate any gain or loss by reference to the carrying value at the last valuation. No amendment to the comparative figures is required as a result of the above change in policy.

In accordance with SSAP19 (Revised) "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 SSAP19 (Revised). 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.

Long leasehold land and buildings

Long leasehold land and buildings, not classified as investment properties, are included in the financial statements at valuation. The aggregate surplus or temporary deficit below cost arising from such valuations is transferred to a revaluation reserve. Deficits that are expected to be permanent are charged to the profit and loss account.

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. 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.

1. Accounting policies continued

Investments

The investment in shares held in CenterPoint Properties Trust is included in the financial statements at market value at the balance sheet date translated at the exchange rate ruling at that date. Investments in other quoted securities are also stated at market value. The aggregate surplus or temporary deficit arising from such valuations is transferred to a revaluation reserve. Deficits that are expected to be permanent are charged to the profit and loss account.

Loan arrangement costs

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

Operating leases

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

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise.

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.

Grants

Grants received relating to the construction or redevelopment of investment properties have been deducted from the cost of the property.
The Companies Act 1985 requires assets to be shown at their purchase price or construction cost and hence grants to be presented as deferred income. The departure from the requirements of the Act is, in the opinion of the directors, not material to the financial statements.

2. Segmental analysis

Turnover, profit on ordinary activities before taxation and net assets are attributable to property investment, development and management.
Turnover, profit on ordinary activities before taxation and operations arise in the UK except £1,184,000 (1998: £1,070,000) of income from listed investments which originates from the US. Net assets adjusted for minority interests originating from the US are £21,120,000 (1998: £20,445,000).

3. Property sales

	Fixed property assets		Current property assets		Total	
	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000
Net sale proceeds	16,225	40,371	31,874	7,126	48,099	47,497
Historical cost of sales	(12,805)	(39,141)	(30,228)	(6,609)	(43,033)	(45,750)
Historical cost profit	3,420	1,230	1,646	517	5,066	1,747
Revaluation surplus	(2,136)	(1,313)	–	–	(2,136)	(1,313)
	1,284	(83)	1,646	517	2,930	434
Share of joint ventures	–	45	–	–	–	45
Profit/(loss) recognised on sale of properties	1,284	(38)	1,646	517	2,930	479

4. Administrative expenses

	1999 £000	1998 £000
General administrative costs	5,779	5,249
Corporate and public company expenses	1,384	1,010
	7,163	6,259

5. Other operating income

	1999 £000	1998 £000
Fee income from joint ventures and associates	–	282
Other income	955	387
	955	669

6. Interest receivable and similar income

	1999 £000	1998 £000
Bank interest	237	233
Interest from joint ventures and associates	348	375
Other interest	119	119
	704	727
Share of joint ventures (see note 18)	12	76
Share of associates (see note 19)	3	4
	719	807

7. Interest payable and similar charges

	1999 £000	1998 £000
Bank loans and overdrafts wholly repayable within five years	32,998	23,888
Other loans	1,757	1,752
	34,755	25,640
Capitalised during the year	(2,033)	(856)
	32,722	24,784
Share of joint ventures (see note 18)	251	237
Share of associates (see note 19)	32	269
	33,005	25,290

The interest relating to bank loans, overdrafts and other loans wholly repayable within five years included £nil (1998: £2,796,000) in respect of loans repayable by instalments.

The interest charge includes £463,000 (1998: £285,000) of loan arrangement costs amortised during the year.

8. Profit on ordinary activities before taxation

	1999 £000	1998 £000
This is arrived at after charging/(crediting)		
Loss on disposal of other fixed assets	92	113
Depreciation	479	569
Amortisation of goodwill	–	5
Auditors' remuneration (see below)	120	89
Directors' emoluments (see note 10)	2,195	2,059
Operating lease rentals for land and buildings	859	918
Surrender premiums received	(280)	(4,535)
The Group's auditors also charged the following amounts for the provision of non-audit services during the year:		
General taxation advice	108	85
Fees in relation to share issues	–	92
Other	6	18
	114	195

The auditors' remuneration for the Group includes £7,000 (1998: £6,000) in respect of the parent company.

9. Employee information

The staff engaged directly in property management are employed by subsidiaries, which recharge their employment costs to the tenants of the shopping centres and properties owned by those companies. The aggregate payroll costs, excluding shopping centre and property specific employees, were as follows:

	1999 £000	1998 £000
Staff costs (including directors) consist of:		
Salaries	3,107	2,564
Discretionary bonuses	1,379	1,107
Total salaries	4,486	3,671
Social security costs	508	380
Other pension costs	199	166
	5,193	4,217

The average number of persons employed by the Group during the year was 82 (1998: 74).

	Average number of employees	
	During 1999	During 1998
Direct property services	19	20
Central management	63	54
	82	74

10. Directors' emoluments

	1999 £000	1998 £000
Emoluments of the highest paid director are as follows:		
Aggregate emoluments	358	380
Pension contributions to defined contribution scheme	40	38
	398	418
Total emoluments of all directors are as follows:		
Aggregate emoluments	2,019	1,907
Pension contributions to defined contribution schemes	176	152
	2,195	2,059

Company pension contributions to defined contribution schemes are being made in respect of six directors (1998: six directors).

Details of directors' remuneration by director and details of their interests in the share capital of the Company are set out in the Report on Directors' Remuneration and Interests on pages 35 to 38.

11. Taxation

	1999 £000	1998 £000
UK corporation tax:		
Current period	139	351
Prior periods	(19)	(130)
Advance corporation tax	188	1
Share of tax of joint ventures (see note 18)	101	125
	409	347

The tax liability for the year has been reduced due to the benefit of capital allowances and the utilisation of losses brought forward.

12. Profit of the holding company

Of the profit for the year attributable to shareholders, a profit of £111,107,000 (1998: £16,808,000) has been dealt with in the accounts of the holding company and is made up as follows:

	1999 £000	1998 £000
Dividends from subsidiaries	121,632	36,550
Net operating costs including interest and tax	(10,525)	(19,742)
	111,107	16,808

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

13. Equity dividends paid and payable

	1999 £000	1998 £000
Interim of 2.0p per share paid on 23rd August 1999 (1998: 1.5p per share)	1,965	1,474
Proposed final of 3.0p per share payable on 12th May 2000 (1998: 2.75p per share)	2,948	2,702
	4,913	4,176

14. Earnings per share

Earnings per share have been calculated on the weighted average number of Ordinary shares of 10p each in issue during the year 98,258,784 (1998: 91,712,962) and have been based on profit on ordinary activities after taxation and minority interests of £12,003,000 (1998: £11,092,000).

Diluted earnings per share have been calculated after allowing for the exercise of share options which have met the required exercise conditions and the full conversion of the Convertible Unsecured Loan Stock, if the effect on earnings per share is dilutive. The weighted average number of Ordinary shares of 10p each is 98,611,343 (1998: 92,048,812) and the relevant earnings are £12,003,000 (1998: £11,092,000).

Earnings per share on revenue activities exclude the profit on the sale of investment properties and investments, and associated tax charge and minority interest thereon, of £1,973,000 (1998 loss: £132,000).

15. Property assets

	Investment properties		Properties under construction £000	Total £000
	Freehold properties £000	Leasehold properties £000		
Group				
Cost or valuation:				
At beginning of year	451,595	195,337	7,674	654,606
Additions	94,514	124,928	17,567	237,009
Disposals	(14,941)	–	–	(14,941)
Revaluation	26,706	25,478	4,282	56,466
At end of year	557,874	345,743	29,523	933,140
The year end balance is analysed as follows:				
Historical cost	429,667	307,316	22,963	759,946
Revaluation surplus	128,207	38,427	6,560	173,194

A list of the valuers, and the basis of the valuations, are summarised in note 33.

	1999 £000
The year end balance for leasehold properties is analysed as follows:	
Leasehold with more than 50 years to run	340,493
Leasehold with less than 50 years to run	5,250
	345,743

The net book value of property assets includes £2,256,000 (1998: £623,000) in respect of capitalised interest.

16. Other fixed assets

	Long leasehold land and buildings £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Group				
Cost or valuation				
At beginning of year	–	1,349	558	1,907
Additions	13,746	648	79	14,473
Disposals	–	(776)	(67)	(843)
Revaluation (see note 28)	(596)	–	–	(596)
At end of year	13,150	1,221	570	14,941
Depreciation				
At beginning of year	–	820	243	1,063
Provided for year	–	340	139	479
Disposals	–	(628)	(46)	(674)
At end of year	–	532	336	868
Net book values:				
At 25th December 1999	13,150	689	234	14,073
At 25th December 1998	–	529	315	844

The long leasehold land and buildings is the Group's head office, which was independently valued on 25th December 1999. It was purchased on 17th December 1999, consequently no charge for depreciation was made in the year. The valuer, and the basis of the valuation, is summarised in note 33.

17. Other investments

	Group			Company
	Investment in CenterPoint Properties Trust £000	Other listed investments £000	Total £000	Shares in subsidiary and joint venture undertakings £000
Cost or valuation				
At beginning of year	20,445	1,555	22,000	39,018
Disposals	–	(1,555)	(1,555)	–
Transfers from Group companies	–	–	–	171,807
Write down in value of investments	–	–	–	(27,776)
Surplus on revaluation (see note 28)	675	–	675	–
At end of year	21,120	–	21,120	183,049
The year end balance is analysed as follows:				
Historical cost	3,021	–	3,021	183,049
Revaluation surplus	18,099	–	18,099	–

At 25th December 1999, the Group owned 4.9% of the common stock (4.6% on a fully diluted basis) of CenterPoint Properties Trust, a Maryland real estate investment trust operating in Chicago, Illinois, USA. The stock is listed on the New York Stock Exchange.

A list of subsidiaries, joint venture and associated undertakings is given in note 39.

18. Investment in joint ventures

	1999 £000	1998 £000
At beginning of year	2,267	4,457
Subscription for share capital	–	725
Amortisation of goodwill arising on additions	–	(5)
Disposals	–	26
Dividends and capital distributions received	(300)	(3,526)
Share of results (see below)	310	628
Share of taxation (see below)	(101)	(125)
Share of property revaluation surplus	46	87
At end of year	2,222	2,267

18. Investment in joint ventures continued

	Easter Holdings Ltd £000	Exchange Court Properties Ltd £000	Others £000	Total £000
Group share of results:				
Turnover	6,289	325	–	6,614
Operating profit	582	5	7	594
Interest receivable and similar income	7	–	5	12
Interest payable and similar charges	(162)	(89)	–	(251)
Equity minority interests	(45)	–	–	(45)
Profit before tax	382	(84)	12	310
Taxation	(99)	–	(2)	(101)
Profit after tax	283	(84)	10	209
Group share of:				
Investment properties	1,325	–	80	1,405
Development properties at cost	2,389	1,764	70	4,223
Other current assets	2,765	10	247	3,022
Gross assets	6,479	1,774	397	8,650
Current liabilities	3,562	106	105	3,773
Loans	1,805	850	–	2,655
Gross liabilities	5,367	956	105	6,428
Share of net assets	1,112	818	292	2,222
Effective Group share	50%	50%	37.5% to 50%	
Potential recourse to the Group	Nil	Nil	Nil	
Actual recourse at end of year	Nil	Nil	Nil	

A list of valuers and the basis of the valuation are summarised in note 33.

The joint ventures all operate in the UK.

19. Investment in associates

	1999 £000	1998 £000
At beginning of year	3,446	3,304
Share of results (see below)	71	419
Share of profit on disposal of investment properties eliminated on consolidation	31	–
Dividends received	(714)	(660)
Capital distributions received	(2,829)	–
Investment in associates	–	270
Share of property revaluation surplus	–	113
At end of year	5	3,446

	Easter Industrial Partnership £000	Easter Runcorn Partnership £000	Total £000
Group share of results:			
Turnover	63	47	110
Operating profit	55	45	100
Interest receivable and similar income	2	1	3
Interest payable and similar charges	(19)	(13)	(32)
Profit before tax	38	33	71
Taxation	–	–	–
Profit after tax	38	33	71
Group share of:			
Other current assets	5	–	5
Gross and net assets	5	–	5
Effective Group share	25%	–	

The associates both operate in the UK.

The Easter Runcorn Partnership was dissolved during the year.

20. Current property assets

	1999 £000	1998 £000
Properties held for disposal	31,178	18,860
Properties under development	3,482	5,552
	34,660	24,412

The net book value of current property assets includes £68,000 (1998: £10,000) in respect of capitalised interest.

21. Debtors

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Amounts falling due after more than one year				
Amounts owed by subsidiaries	–	–	90,876	55,703
Amounts owed by joint ventures	4,840	3,914	4,840	3,914
	4,840	3,914	95,716	59,617
Amounts falling due within one year				
Trade debtors	14,988	12,095	34	53
Amounts owed by subsidiaries	–	–	658,569	423,255
Other debtors	6,042	2,712	14	358
Tax recoverable	325	461	419	703
Prepayments and accrued income	19,034	3,534	122,398	39,016
	40,389	18,802	781,434	463,385

22. Cash at bank and in hand

Cash at bank includes £127,000 (1998: £36,000) specifically held as security deposits and retained in rent accounts and not freely available to the Group for day to day commercial purposes.

23. Creditors: amounts falling due within one year

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans (secured)	3,180	396	(141)	(322)
Amounts owed to subsidiaries	–	–	164,272	13,262
Trade creditors	5,929	1,397	35	7
Other creditors	1,281	2,858	114	–
Taxation and social security	1,443	1,271	–	–
Corporation tax	475	511	–	–
Accruals and deferred income	42,922	24,511	6,527	4,469
Proposed dividends	2,948	4,176	2,948	4,176
	58,178	35,120	173,755	21,592

24. Creditors: amounts falling due after more than one year

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans (secured) (see note 25)	574,620	340,439	548,841	305,003
Convertible loan stock (unsecured) (see note 26)	24,132	24,041	24,132	24,041
	598,752	364,480	572,973	329,044

25. Bank loans

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Aggregate amount repayable:				
Between one and two years	65,529	33,838	52,522	(147)
Between two and five years	487,319	306,601	487,319	305,150
Greater than five years	21,772	–	9,000	–
Loans due after more than one year	574,620	340,439	548,841	305,003
Loans due in one year or less or on demand	3,271	487	(50)	(231)
Total loans	577,891	340,926	548,791	304,772

Bank loans are secured on properties valued at £944,467,000.

Bank loans are stated net of unamortised issue expenses totalling £458,000 (1998: £499,000).

The following information has been produced in order to comply with Financial Reporting Standard No.13. A more detailed analysis is given in the Finance Review on pages 32 and 33.

The Group's interest rate profile is after taking account of the effect of swaps, as follows:

	Total £000	Weighted average interest rate	Weighted average period-years
Fixed and swapped loans	272,391	7.8%	2.64
Variable rate loans	330,600	6.9%	n/a
	602,991		

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

The table below shows the market value of fixed rate debt instruments, and reflects the difference between the interest rate yield curve as at 25th December 1999 and the rates historically committed; namely the fair value adjustment.

	Book value £000	Notional value £000	Fair value £000	Fair value adjustment 1999 £000	Fair value adjustment 1998 £000
Convertible unsecured loan stock	24,642	n/a	24,642	–	(707)
Bank borrowings	15,249	n/a	15,325	(76)	(838)
Interest rate swaps	n/a	232,500	230,954	1,546	(9,828)
	39,891	232,500	270,921	1,470	(11,373)

Interest rate swaps and bank fixed rates have been valued on a replacement basis. They have been valued against the offered side of the zero coupon yield curve commencing on 25th December 1999 and ending on the contracted expiry dates.

Undrawn loan facilities as at 25th December 1999 are as follows:

	£000
Loans due to be repaid in:	
Less than one year	12,594
Between one and two years	5,850
Between two and five years	3,050
	21,494

Financial assets
The fair value adjustment to financial assets and liabilities is, in the opinion of the directors, not material to the balance sheet.

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

26. Convertible subordinated unsecured loan stock

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Convertible loan stock	24,642	24,642	24,642	24,642
Unamortised loan issue costs due after one year	(510)	(601)	(510)	(601)
	24,132	24,041	24,132	24,041
Unamortised loan issue costs due within one year	(91)	(91)	(91)	(91)
	24,041	23,950	24,041	23,950

The Convertible Subordinated Unsecured Loan Stock ("CULS") may be converted by the holders of the stock into 50.37 Ordinary shares per £100 nominal value CULS in any of the years 1997 to 2015 inclusive, representing a conversion price of 199p per Ordinary share. The Company has the right to redeem at par the CULS in any year from 2006 to 2016. The CULS are unsecured and are subordinated to all other forms of unsecured debt but rank in priority to the holders of the Ordinary shares in the Company. The CULS carry interest at an annual rate of 6.75%, payable in arrears on 30 June and 31 December in each year.

In accordance with Financial Reporting Standard No. 4 "Capital Instruments", the CULS are shown net of its unamortised loan issue costs.

27. Called up share capital

	Number of shares issued and fully paid		Nominal value of shares issued and fully paid	
	1999 Number	1998 Number	1999 £000	1998 £000
Ordinary shares of 10p each				
At beginning of year	98,255,271	76,399,235	9,826	7,640
Issued in respect of rights issue	–	21,828,352	–	2,183
Issued on exercise of share options	10,426	–	1	–
Issued in respect of profit sharing scheme	–	27,684	–	3
At end of year	98,265,697	98,255,271	9,827	9,826

	Authorised	
	1999	1998
Ordinary shares of 10p each	150,000,000	150,000,000

There have been no changes to the number of shares in issue since the year end.

The options to subscribe for new Ordinary shares of 10p each under the share option schemes that were outstanding at 25th December 1999 are as follows:

	25th December 1999	
	Number of shares	Subscription price
Period within which options are exercisable:		
22nd December 1996 to 22nd December 2003	460,814	168.9p
28th October 1997 to 28th October 2004	349,281	131.4p
13th April 1998 to 13th April 2005	10,426	132.4p
21st October 1999 to 21st October 2006	182,458	193.2p
18th June 2000 to 18th June 2004	709,869	226.4p
18th June 2000 to 18th June 2007	109,558	226.4p
15th May 2001 to 15th May 2008*	1,152,000	279.5p
22nd May 2001 to 22nd May 2008*	72,820	286.5p
28th September 2001 to 28th September 2008*	25,000	196.5p
23rd February 2002 to 23rd February 2009*	672,900	191.5p
	3,745,126	

*Only exercisable if conditions relating to growth in net asset per share and total return for shareholders are met.

28. Reserves

		Revaluation reserves		Other reserves	
	Share premium account £000	Property revaluation reserve £000	Investment revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000
Group					
At beginning of year	161,863	114,903	16,650	591	26,983
Issue of share capital	13	–	–	–	–
Group share of revaluation of investment properties	–	54,520	–	–	–
Group share of revaluation deficit of other fixed assets	–	(596)	–	–	–
Realisation of surplus on disposal of investment properties	–	(2,136)	–	–	2,136
Share of unrealised revaluation surplus in joint ventures	–	46	–	–	–
Revaluation surplus on other investments	–	–	675	–	–
Realisation of deficit on disposal of other investments	–	–	774	–	(774)
Profit for the year	–	–	–	–	7,090
Exchange differences	–	–	–	–	1
At end of year	161,876	166,737	18,099	591	35,436
Group's share of post acquisition reserves of joint ventures and associates:					
At beginning of year		729			349
Movement during the year		(532)			502
At end of year		197			851
Company					
At beginning of year	161,923			591	39,452
Movement during the year	13			–	106,194
At end of year	161,936			591	145,646

The accumulated goodwill written off to reserves at end of year is £4,105,000 (1998: £4,105,000).

29. Equity minority interests

	Profit and loss 1999 £000	Balance sheet 1999 £000	Profit and loss 1998 £000	Balance sheet 1998 £000
Share of net assets attributable to minority shareholders:				
At beginning of year	–	2,101	–	933
Share of results	381	381	(3)	(3)
Share of joint ventures (see note 18)	45	–	45	–
Share of movements in revaluation reserve	–	1,946	–	1,171
Dividends paid to minority interests	–	(87)	–	–
At end of year	426	4,341	42	2,101

Minority interests relate to participation in the net equity of subsidiary companies.

30. Non-equity funding by joint arrangement partners

This represents the additional non-equity funding in the 50:50 joint arrangement, named Xscape Milton Keynes Partnership, by funds managed by PRICOA Property Investment Management Limited.

31. Net assets per share

Net assets per share have been calculated on Ordinary shares of 10p each 98,265,697 (1998: 98,255,271) in issue at the year end and have been based on net assets attributable to shareholders of £392,566,000 (1998: £330,816,000).

Diluted net assets per share assume that all the CULS had converted at the balance sheet date. Diluted net assets per share have been calculated on 110,677,868 (1998: 110,667,442) Ordinary shares of 10p each and have been based on adjusted net assets attributable to shareholders of £416,607,000 (1998: £354,766,000) by adding the £24,041,000 (1998: £23,950,000) balance sheet value of CULS (see note 26).

32. Deferred taxation

No provision has been made for the tax liability that would arise if assets were sold at their balance sheet valuation, on the basis that no liability is expected to crystallise in the foreseeable future.

The potential Group liability is as follows:

	1999 £000	1998 £000
Tax on capital gains if investment assets were sold at their current valuation	45,347	31,985
Accelerated capital allowances	6,818	5,182
Management expenses carried forward	–	(871)
	52,165	36,296

If the above deferred tax were provided for it would have an adverse effect on net assets per share of 53.1p (1998: 36.9p) and on fully diluted net assets per share of 47.1p (1998: 32.8p).

33. Valuations

The properties were valued at 25th December 1999, as follows:

	Valuer	Basis of valuation	£000
Group properties:	DTZ Debenham Tie Leung	Open market value	784,910
		Properties under construction*	26,362
	Insignia Richard Ellis Limited	Open market value	116,960
	Directors	Open market value	475
	Directors	Cost	4,433
Total fixed property assets			933,140
Other fixed assets	DTZ Debenham Tie Leung	Open market value	13,150
Total property assets			946,290

	Valuer	Basis of valuation	£000
Properties held by joint ventures:			
The Capital Properties Partnership	Directors	Open market value	160
Easter Holdings Limited	Easter Holdings Limited	Open market value	2,650
			2,810

Valuations are at open market value as defined in the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors.

*The figure stated reflects the Group's effective interest in properties under construction.

34. Contingent liabilities and guarantees

At 25th December 1999, the Company or the Group had given guarantees in respect of:

– rental and grant repayment obligations of certain joint ventures;

– non-equity funding by joint arrangement partners.

No security has been provided against any of these guarantees.

As set out in notes 18 and 19 there was nothing recourse to the Group in respect of guarantees of the bank loans of joint ventures and associates not included in the consolidated balance sheet.

35. Future commitments

	1999 £000	1998 £000
Capital expenditure commitments:		
Contracted, but not provided for	14,839	23,900
Revenue expenditure commitments:		
Commitments for 2000 in respect of operating leases for land and buildings which expire:		
Between two and five years	–	–
In five years or more	1,272	779
	1,272	779

36. Notes to the cash flow statement

(a) Net cash inflow from operating activities

	1999 £000	1998 £000
Group operating profit	40,950	33,434
Profit on the sale of trading and development properties	(1,646)	(517)
	39,304	32,917
Depreciation	479	569
Loss on disposal of fixed assets	92	113
Amortisation of goodwill arising on acquisition of joint venture	–	5
Increase in trade debtors, other debtors and prepayments	(6,183)	(5,305)
Increase in trade creditors, other creditors, taxation and social security and accruals	8,577	3,004
Net cash inflow from operating activities	42,269	31,303

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

	1999 £000	1998 £000
Increase/(decrease) in cash in year	1,912	(3,753)
Cash inflow from increase in debt financing	(236,924)	(104,203)
Change in net debt resulting from cash flows	(235,012)	(107,956)
Net debt at beginning of year	(360,591)	(252,635)
Net debt at end of year	(595,603)	(360,591)

(c) Analysis of net debt

	At 25th December 1998 £000	Cash flows £000	At 25th December 1999 £000
Cash in hand and at bank	5,476	1,912	7,388
Debt due within one year	(760)	(2,761)	(3,521)
Debt due after one year	(365,307)	(234,163)	(599,470)
Total	(360,591)	(235,012)	(595,603)

37. Related party transactions

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

Joint ventures and associates

Details of the Group's principal joint ventures and associates, including recourse to the Group in respect of external borrowings, are set out in notes 18 and 19.

The Group has provided a £5,000,000 loan facility to Easter Holdings Ltd which is repayable on or before 1st January 2001. At 25th December 1999 the loan outstanding was £4,840,000 (1998: £3,914,000). Interest was charged on this facility at rates ranging between 8.0% and 9.25% during the year. The interest receivable for the year is £348,000 (1998: £364,000). The Group was charged £509,000 by a subsidiary of Easter Holdings Ltd in respect of property acquisition and management fees during the year, and £248,000 in respect of project management fees.

During 1999 the Group purchased the property assets held by The Easter Industrial Partnership and The Easter Runcorn Partnership on normal commercial terms for £15,175,000 and £13,000,000 respectively. The Group had a 25% interest in both of the partnerships at the date of acquisition and its interests at the year-end are disclosed in note 19.

During 1999 the Group was in a partnership arrangement with funds managed by PRICOA Property Investment Management Limited of which Martin Barber is non-executive chairman.

During 1999 a subsidiary company, The Easter Management Group (Scotland) Limited, paid a dividend of £86,900 to Kenneth Ford who has a 25% interest therein.

During 1999 Cine UK Limited leased one of the Group's properties and had entered into agreements for lease at two other Group properties on normal commercial terms. Viscount Chandos is a director and shareholder of Cine UK Limited.

David Cherry is a former Senior Partner and currently a consultant to the firm Donaldsons, which has continued to act during 1999 as one of the Group's property advisers and as such has received fees for its services on normal professional terms.

38. Post balance sheet events

On the 4th February 2000 the Group sold Royal London Estate, Acton for a total consideration of £3,450,000.

39. Subsidiary, joint arrangement entities, associated and joint venture undertakings at 25th December 1999

Principal subsidiaries, joint arrangement entities, joint ventures and associated companies	Nature of property business	Group effective share of business
Capital & Regional Investments Limited **	Investment and management	100%
Capital & Regional Shopping Centres Limited **	Investment and management	100%
Capital & Lanham Retail Parks Limited **	Investment and management	100%
The Howgate Shopping Centre Limited *	Investment and management	100%
Ashley Centre GP Limited	Investment and management	100%
Ashley Centre Limited Partnership	Investment and management	100%
Capital & Regional Retail (Northern) Limited **	Investment and management	100%
Exchange Court Properties Limited *	Development and trading	50%
Capital & Regional Estates Limited **	Development and trading	100%
Lancaster Shelf Eleven Limited *	Development and trading	100%
Capital & Regional (Milton Keynes) Limited	Investment and management	100%
Xscape Milton Keynes Partnership	Investment and management	50%
St. Andrew House (Glasgow) Limited *	Investment and management	100%
Capital & Regional Property Management Limited	Management	100%
Capital & Regional (Out-of-town) Ashford Limited	Development and trading	100%
Capital & Regional (Victoria) Limited	Investment and management	100%
Cosmorole Limited	Investment and management	100%
R Green (Brighton) Limited	Investment and management	100%
Capital & Regional (Sunderland) Limited	Investment and management	100%
Jearon Properties Limited	Investment and management	100%
Capital & Regional Limited	Investment and management	100%
Capital & Lanham Construction (Coventry) Limited	Development and trading	100%
Capital & Lanham Developments (Cannock) Limited	Development and trading	100%
Capital & Regional USA Holdings Limited	Investment and holding	100%
R Green Properties (Holdings)	Investment and holding	100%
Realcap Management Limited	Investment and management	100%
Realcap Investments Limited	Investment and management	100%
Capital Properties Partnership	Investment and management	50%
Applied Solutions (Projects) Limited	Project Management	50%
Capital and Lanham Retail Parks (Wolverhampton) Limited	Development	81.2%
Easter Capital Investment Holdings Limited	Investment and holding	75%
Easter Capital Investments Limited	Investment and management	75%
Easter Properties (North East) Limited	Investment and management	75%
Twelve Quays Limited	Investment and management	75%
Twelve Quays One Limited	Investment and management	75%
Easter Capital Investments (Nottingham) Limited	Investment and management	75%
Netherton Developments Limited	Development	37.5%
Easter Holdings Limited	Investment and holding	50%
Easter Management Limited	Management	50%
Easter Projects Limited	Project management	25%
Easter Development Group Limited	Investment	50%
Easter Properties Limited	Development	50%
Easter Properties (Sunderland) Limited	Development	50%
Easter Properties (Bredbury) Limited	Development	50%
Easter Properties (Milton Keynes) Limited	Development	50%
Easter Properties (Basingstoke) Limited	Development	50%
Easter Properties (Trafford Park) Limited	Development	50%
Easter Properties (Warrington) Limited	Development	50%
Easter Properties (Fareham) Limited	Development	50%
Easter Investments Limited	Investment	50%
Easter Investments One Limited	Investment	50%
Easter Investments Two Limited	Investment	50%
Easter Investments (Grosvenor Place) Limited	Development	50%
Easter and Northern Properties Limited	Investment and management	37.5%
Easter and Northern (Team Valley) Limited	Development	37.5%
Easter and Cairn Property Developments (Aylesbury) Limited	Development	27.5%
Easter & Arun Limited	Development	25%
Easter & Arun (Oldbury) Limited	Development	25%
Easter & Arun (Shoreham) Limited	Development	25%

The subsidiary and joint ventures and associated companies are registered in England and Wales, and Scotland. Except as identified these operate in England and Wales. Investment in joint ventures and associates are dealt with in notes 18 and 19.

The company has taken advantage of S231(5) Companies Act 1985 in not listing all of its subsidiary, associated and joint venture undertakings. All of the above principal subsidiaries, joint arrangement entities, associates and joint ventures have been consolidated in the Group Financial Statements. All voting rights are in line with effective share of business.

*Operates in Scotland.

**Operates in England and Wales, and Scotland.

Directors' Report

for the year ended 25th December 1999

The directors present their report together with the audited financial statements for the year ended 25th December 1999.

Results and proposed dividends

The consolidated profit and loss account is set out on page 42 and shows a profit on ordinary activities after taxation of £12.429m.

The directors recommend the payment of a final dividend of 3.0p per Ordinary share on 12th May 2000, to members on the register at the close of business on 3rd March 2000, which together with an interim dividend of 2.0p per Ordinary share, paid in 1999, makes a total of 5.0p for the year.

Principal activities, trading review and future developments

The principal activity of the Group is that of property investment, development and management. A review of the activities and prospects of the Group is given in the Chairman's Statement and reviews on pages 2 to 33.

Directors

The directors of the Company at 25th December 1999, all of whom have been directors for the whole of the year, are as follows:

M. Barber, R. Boyland, Viscount Chandos, D. Cherry, L. Coral, P. Duffy, K. Ford, M. Gruselle, A. Lewis-Pratt and X. Pullen.

In accordance with the Articles of Association, D. Cherry (who is a member of the Remuneration and Audit Committees), L. Coral, M. Gruselle (who is the senior non-executive director and chairman of the Remuneration and Audit Committees), and X. Pullen retire by rotation and, being eligible, offer themselves for reappointment. L. Coral and X. Pullen have service contracts which require notice of one year. M. Gruselle has served as a non-executive director since 1989 and the Board have renewed his letter of appointment for a further three years with effect from 1st January 2000. Under the terms of the letter he is required to vacate office without compensation if not reappointed by shareholders on retirement by rotation. D. Cherry has served as a non-executive director since 1997 and has a letter of appointment for a period of three years expiring on 4th April 2000, which the Board will renew from that date. Under the terms of the letter he is required to vacate office without compensation if not reappointed by shareholders on retirement by rotation. Biographies of the directors of the Company are set out on pages 28 and 29.

Directors' interests

The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) are interested in 4,761,724 issued shares representing 5% of the issued Ordinary share capital of the Company as detailed in the Report on Directors' Remuneration and Interests on pages 35 to 38.

Save as set out in note 37 to the accounts there were no contracts of significance subsisting during or at the end of the year in which a director of the Company was materially interested.

Share options

Details of options to subscribe for new Ordinary shares of 10p each under the Executive Share Option Schemes and the Discretionary Share Option Schemes 1998 are set out in note 27 to the accounts.

Details of options granted to the directors, under the same Schemes, are contained in the Report on Directors' Remuneration and Interests on pages 35 to 38.

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 28th February 2000:

	Shares	Shares %
Phillips & Drew Fund Management Limited	15,379,040	15.65
Legal & General	7,604,657	7.74
Norwich Union Investment Management	6,403,323	6.52
Royal & Sun Alliance	4,580,622	4.66
Clerical Medical Investment Management	4,273,665	4.35
SLC Asset Management	4,136,967	4.21
United Nations Pension Fund	3,963,120	4.03
Total	46,341,394	47.16

Charitable donations

During the year the Group contributed £7,812 (1998: £7,746) to UK charities.

Payment of suppliers

The policy of the Group is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed payment is usually made within one month of receipt of the goods or service. At the year end the Group had an average of 20 days' purchases outstanding.

Compliance with Combined Code

A statement on Corporate Governance is set out on pages 39 to 40.

Employee involvement

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

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Investors in People

During 1999 the Company committed to a plan to achieve the Investor in People accreditation. The initiatives that will be implemented during the course of this year include the implementation of training and development plans, procedures and annual evaluation; internal communication by senior management of its commitment to Investors in People through newsletters, team meetings and conferences; and the introduction of formal documentation to brief all current and new employees on the Company's philosophy, strategy and internal procedures.

Euro

The Group is continuing to review the potential effect of the introduction of the single European currency on the administration of its business.

Dividend Reinvestment Plan

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

The timetable for the 2000 Final Dividend is set out on page 68. A copy of the circular setting out terms and conditions of the Dividend Reinvestment Plan (published in July 1999) can be obtained by contacting the Company Secretary's department at the registered office.

Year 2000

Following their initial review the directors continue to be alert to the potential risks and uncertainties surrounding the Year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen or that may arise which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

Auditors

Deloitte & Touche have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Special business of the Annual General Meeting

Authority to purchase own shares

At the 1999 Annual General Meeting, the Company was granted authority to make purchases in the market of its own shares subject to specified limits. This authority expires at the conclusion of the Company's Annual General Meeting for this year and under resolution 8, which is proposed as a special resolution, the Company is seeking to renew such authority and the directors recommend that the authority be increased from 5% to 14.9% of the issued share capital in order to give the directors greater flexibility should they consider it appropriate to make such purchases. The authority is sought until the conclusion of the 2001 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 27 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.

Pre-emption rights

Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. Under resolution 9, 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.

Adoption of new All-Employee Share Ownership Plan

The Company welcomes the announcement by the Government of the introduction of a new All-Employee Share Ownership Plan. Although the Company will not be able to complete the introduction of the plan until later this year when the legislation is introduced, the Company wishes to ensure that it is in a position to proceed with the new scheme at the earliest opportunity.

A summary of the contents of the Plan as proposed by the Government are set out on page 63 to page 65.

It is therefore proposed under resolution 10, which is proposed as an ordinary resolution, that the directors seek the authority to adopt the All-Employee Share Ownership Plan in such form as will be approved by the Inland Revenue.

Change of name to "Capital & Regional plc"

In December 1999 the directors agreed to modernise the Company logo, as the business has changed significantly since flotation in 1986. The new corporate identity reflects the strategy and philosophy for the Company's future as an operating company. The directors believe that the communication of its new image would be assisted by a simplification of the Company name to Capital & Regional.

It is therefore proposed under resolution 11, which is proposed as a special resolution, that the name of the Company be changed to Capital & Regional plc.

By Order of the Board

L. Coral Secretary
2nd March 2000

All-Employee Share Ownership Plan

Capital and Regional Properties Plc ('the Company')
All-Employee Share Ownership Plan ("the Plan")

General

The Plan consists of three Sub Plans known as the Free Share Sub Plan, the Partnership Share Sub Plan and the Matching Share Sub Plan ('the Sub Plans') together with a trust known as the All Employee Share Ownership Trust ('the Trust').

By the various Sub Plans and the Trust those employees of the Company and its subsidiaries who are eligible may be offered shares in the Company subject to certain terms and conditions. These terms and conditions of the Sub Plans and the Trust are described in further detail below.

Eligible employees

Every person who in any tax year and as at the date on which he is invited to participate in the Plan or any of the Sub Plans:

1 Is an employee of the Company or a subsidiary of the Company;

2 Has been such an employee for a period of twelve months (or any lesser period determined by the Company from time to time);

3 Does not have and has not had in the previous twelve months a material interest in a close company whose shares may be appropriated under the Plan or a company which controls such a company;

4 Is not participating in:

- an approved profit sharing scheme under schedule 9 of the Income and Corporation Taxes Act 1988 or
- an Inland Revenue approved employee share ownership plan which provides for free shares to be appropriated to employees without payment or for shares to be acquired on behalf of employees out of sums deducted from their salary,

established by the Company or a connected company more than to an extent which by any relevant legislation would render him ineligible to participate in the Plan;

5 Is chargeable to tax under Case I of schedule E to the Income and Corporation Taxes Act 1988,

Shall be an eligible employee ("Eligible Employee") for the purposes of the Plan.

The Free Share Sub-Plan

In any tax year, the Company may invite all Eligible Employees to accept an appropriation of shares in the Company for no payment ("free shares"). The value of free shares appropriated to each employee shall not exceed £3,000.

The Company shall treat each employee equally in relation to any appropriation of free shares but this shall not prevent an appropriation of the shares by reference to the employees':

(a) Remuneration; or

(b) Length of service; or

(c) Hours worked,

Provided that each of these factors shall give rise to an entitlement proportional to an amount of remuneration, length of service or hours worked. If the Company shall elect to make an appropriation of free shares by reference to these factors the basis of the appropriation shall be first approved by the Inland Revenue.

In any tax year, and at the discretion of the Company, the appropriation of free shares may be conditional upon the satisfaction of performance targets. These performance targets shall be based on business results or other objective criteria, may vary between units of the Company and its subsidiaries but will, in any event, be broadly comparable in terms of the likelihood of achieving the performance targets in question. Any performance target or targets to be adopted must have prior approval of the Inland Revenue.

Those Eligible Employees who accept the invitation ("a free share participant") shall agree with the Company that free shares to be appropriated to them shall be held by the Trustees of the Trust for a period of not less than three years nor more than five years ("the holding period"). These free share participants shall also further agree with the Company that during the holding period they shall not assign, charge or otherwise dispose of the initial interest in the shares.

The holding period of between three and five years shall be determined by the Company for invitations to the Eligible Employees in each tax year. However, all those Eligible Employees who accept an invitation in any one tax year must be subject to the same holding period.

The Partnership Share Sub-Plan

In any tax year the Company may invite Eligible Employees to enter an agreement ("the partnership share agreement") with the Company by which the employee agrees to allocate part of his salary for the purchase of ordinary shares in the Company ("partnership shares"). Under the partnership share agreement the Company agrees to arrange for partnership shares to be acquired in accordance with the terms of the partnership share sub-plan.

The partnership share agreement shall specify the amount, which shall be deducted from the employee's salary. This amount shall not exceed £1,500 in any year or £125 in any month or 10% of the employee's salary. In addition, the amount shall not be less than £10 in any month. The period over which such deduction shall be made shall not in any circumstances exceed one year.

The money deducted from the employee's salary ("partnership share money") shall be held by the Trustees of the Trust and applied in purchasing partnership shares. Neither the Company or the Trustees shall be obliged to account to any employee for any interest earned on partnership share money.

At the election of the Company the partnership share agreement may provide that either:

(a) The Trustees of the Trust shall apply partnership share money in acquiring partnership shares on behalf of the employees concerned within 30 days of a deduction being made; or

(b) The Trustees shall apply partnership share money in acquiring shares at the end of a period ("the accumulation period") not exceeding one year.

Whichever alternative the Company shall elect to apply the same alternative shall apply to all employees who enter a partnership share agreement in any tax year.

If after the partnership share money is applied in acquiring partnership shares there is any balance remaining the Trustees of the Trust may, with the agreement of the employee concerned, pay the money to the employee or carry forward the amount in question to the next share acquisition under the terms of the partnership share agreement.

The employee may stop deductions or withdraw from the partnership share agreement at any time.

The trustee shall hold the partnership shares until the employee directs otherwise.

The Matching Shares Sub-Plan

The partnership share agreement may, at the Company's election also provide that the employees shall be appropriated additional shares ("matching shares") for every share purchased at a ratio not exceeding two matching shares for every one share purchased.

If the Company shall make such an election the employee is required to agree as a term of the partnership share agreement that the matching shares shall be held by the Trustees of the Trust for a period of not less than three years or more than five years. This period may vary from tax year to tax year but shall in any one such year be the same for all employees who enter a partnership share agreement during that year.

Reinvestment of cash dividends

When any cash dividend is paid on shares held by the Trustees of the Trust in accordance with the rules of the Plan, the dividend shall be applied by the Trustee in acquiring further shares in the Company of the same class as the shares held on behalf of the employee in question.

The shares shall be held by the Trustee for the employee on whose shares the dividend was paid provided that the amount applied in acquiring shares for any employee shall not exceed £500 in the first year, £1,000 in the second year, £1,500 in the third or any later year of the employee's participation in the Plan. If the cash dividend exceeds this limit then the balance shall be paid to the employee concerned. If there is any amount remaining after shares have been acquired and the limit is not exceeded then this sum may be retained by the trustee and added to the next cash dividend to be applied when purchasing shares.

The employee shall agree that the Trustees of the Trust shall hold any shares acquired with this cash dividend for a period of not less than three years.

Termination of employment

Where an employee ceases to be employed by the Company or any of the subsidiaries (for any reason whatsoever) any free, partnership or matching shares shall be transferred by the Trustees of the Trust to the former employee in question.

The Company may, at its election, include as a term of any appropriation of free or matching shares that if the employee ceases to employed by the Company or any subsidiary three years from the date of appropriation then he shall cease to be beneficially entitled to such shares. If the Company elects to include such a term then this term shall apply to all and any appropriation of shares in any one tax year. The inclusion of such a term in one tax year shall not however bind the Company to include such a term in any subsequent tax year.

The Trustees of the All Employee Share Ownership Trust

By a trust instrument the Company shall appoint trustees (referred to as "the Trustees") who are required:

(a) To acquire any free and matching shares and appropriate those shares to Eligible Employees in accordance with the Plan; and

(b) Apply partnership share money in acquiring partnership shares on behalf of those Eligible Employees who enter a partnership share agreement in accordance with the Plan.

The Trustees are empowered to borrow money to acquire shares for the purposes of the plan or such other purposes as may be specified by the trust instrument.

The Trustees are prohibited from disposing of any free or matching shares or shares purchased by means of any cash dividend during the holding period (whether by transfer to the employee or otherwise). This obligation is subject to certain qualifications which relate to the employees' power to give certain directions to the Trustees, the Trustees power to dispose of shares for certain express purposes and the Trustees duty to transfer shares to a former employee when the employment has determined.

Association of British Insurers' Guidelines

The Plan requires that any appropriation of free, matching or partnership shares shall comply with all the relevant Guidelines issued by the Association from time to time. This shall include, without limitation, a requirement that the number of shares in the Company issued or issuable pursuant to the terms and conditions of the Plan over any ten year period shall not exceed such number as may be equal to ten per cent of the issued share capital of the Company.

Amendment of the Plan

The Company may amend the terms and conditions of the Plan from time to time provided that:

- where any amendment is such that the approval of the members of the Company is required by the Listing Rules of the London Stock Exchange or any Association of British Insurer guidelines then such approval shall first be obtained;
- any amendment to the Rules of the Plan shall be subject to the prior approval of the Inland Revenue;
- no amendment shall be to the prejudice of any existing right or entitlement of an Eligible Employee under the Rules of the Plan unless the said employee shall agree.

Notice of the Annual General Meeting

Notice is hereby given that the twenty-first Annual General Meeting of the Company will be held at 10 Lower Grosvenor Place, London SW1W 0EN, on 5th May 2000 at 10.30 am for the following purposes.

Ordinary business

1. To consider and, if thought fit, adopt the accounts for the year ended 25th December 1999, and the reports of the directors and auditors thereon.
2. To declare a final dividend of 3.0p per Ordinary share.
3. To reappoint D. Cherry as a director of the Company.
4. To reappoint L. Coral as a director of the Company.
5. To reappoint M. Gruselle as a director of the Company.
6. To reappoint X. Pullen as a director of the Company.
7. To appoint Deloitte & Touche as auditors for the period prescribed by Section 385(2) of the Companies Act 1985 and to authorise the directors to determine their remuneration for the ensuing year.

Special business

8. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

   In compliance with Section 166 of the Companies Act 1985, the Company is hereby generally and unconditionally authorised to make market purchases of its own shares provided always that:

   (a) this authority is limited to a maximum number of 14,641,588 Ordinary shares of 10p in the Company;

   (b) the maximum price which may be paid for the shares shall not exceed 105% of the average of the prices at which business was done in the Ordinary shares of 10p each in the Company during the period of five business days immediately preceding the day on which the shares are contracted to be purchased, or, if no such business was done during that period, 105% of the price at which business was last done in the Ordinary shares of 10p in the company prior to the day on which the shares are contracted to be purchased, in either case as derived from the London Stock Exchange Daily Official List and exclusive of expenses; and

   (c) the minimum price which may be paid for the shares shall not be less than 10p.

   This authority shall expire at the Company's Annual General Meeting in 2001 or 15 months after the date on which this resolution is passed (whichever is the earlier).

9. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

   That:

   (a) the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash, in accordance with any authority conferred on them by any previous meeting of the members of the Company as if Section 89(1) of that Act did not apply to the allotment; and reference in this resolution to the allotment of equity securities includes reference to the grant of a right to subscribe for, or to convert any securities into, relevant shares (as so defined) in the Company; provided that the power conferred by the resolution shall be limited to:

   (i) the allotment of equity securities in connection with a rights issue in favour of holders of Ordinary shares of 10p each in the Company (notwithstanding that, by reason of such exclusion as the directors may deem necessary having regard to legal or procedural requirements in any overseas territory, or in connection with fractional entitlements or otherwise howsoever, the equity securities to be issued are not offered to all of such holders in proportion to the number of shares held by each of them) and

   (ii) the allotment (otherwise than pursuant to sub-paragraph (i) of this resolution) of equity securities up to an aggregate amount in nominal value equal to 5% of the issued Ordinary share capital of the Company immediately prior to the passing of this resolution; and

   (b) this power, unless renewed, shall expire at the Company's Annual General Meeting in 2001 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted in accordance with paragraph (a) of this resolution after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

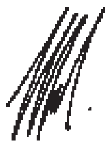
10. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

    That the directors of the Company be and are hereby authorised to adopt an All-Employee Share Ownership Plan in such form as will be approved by the Inland Revenue as an "employee share ownership plan" within the meaning of the draft legislation published for consultation in November 1999.

11. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

    That the name of the Company be changed to "Capital & Regional plc".

By Order of the Board



L. Coral Secretary
2nd March 2000

Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, upon a poll, vote on his/her behalf. A proxy need not be a member of the Company. The Form of Proxy for use by shareholders is enclosed.
2. To be valid, the Form of Proxy, duly executed, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be received at the offices of the Company's Registrars, Lloyds TSB Registrars, 117 Dundas Street, Edinburgh, EH3 5ED not later than 10.30 am on 3rd May 2000.

Advisers and Corporate Information

Auditors
Deloitte & Touche
Hill House
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Investment bankers
Credit Suisse First Boston
1 Cabot Square
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Warburg Dillon Read
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Fladgate Fielder
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Cole & Co.
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Lending banks
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The Mound
Edinburgh EH1 1YZ

Barclays Bank PLC
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Luton Corporate Banking Centre
Eagle Point
1 Capability Green
Luton LU1 3US

Halifax PLC
33 Old Broad Street
London EC2N 1HZ

HSBC Property Finance
HSBC Bank plc
Poultry
London EC2P 2BX

HypoVereinsbank
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1399411

2000 Financial Calendar

2000 Financial calendar

Annual General Meeting – 5th May

Final dividend record date – 3rd March

Final dividend payment – 12th May

Interim results – 11th July

2000 Interim dividend – July/August

2000 Preliminary results announcement – February/March 2001

2000 Final dividend timetable

Record date – 3rd March

Last day to receive DRIP mandates – 3rd May

Dividend Warrants posted – 11th May

Payment date/shares purchased – 12th May

Certificates/purchase statements despatched – 25th May

CREST accounts credited – 26th May

Designed and produced by Radley Yeldar (London)

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