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**Capital & Regional plc**  
Annual Report 2002



Increase in properties under management to £1.5bn at the period end (December 2001: £886m) and to £2.4bn at 31 March 2003;

Net asset value per share up 15.5% to 388p on a fully diluted basis (December 2001: 336p);

Return of £50m to shareholders in April 2002, reducing shares outstanding by 22.1%;

Profit before tax and exceptional items of £10.8m (2001: £11.4m) on reduced capital base;

A final dividend of 4.0p to be paid in June 2003 (December 2001: 3.5p), making a total dividend for the year 7.0p, an increase of 17% (2001: 6.0p);

The Mall Fund produced an annualised return to investors, after management fees, of 21.6%;

The Junction Fund produced an annualised return to investors, after management fees, of 17.8%;

Acquisition of MWB Group plc leisure fund management business in January 2003.

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**2002 has been a very successful year.**

Reshaping of the group is now complete and significant expansion of the funds has already taken place with investors of the highest quality.

- > **Management expertise**  
leveraged over a larger portfolio
- > Tax efficient **investment**  
for institutions
- > **Higher returns** for shareholders
- > Rapid fund **expansion**
- > **Capital recycled** into new funds
- > Drive value through **intense management**
- > Rental and **capital growth**

## Chairman's and Chief Executive's overview 2002 was a year of major activity.

**Strategy** 2002 has been a very successful year. We have achieved our objective of transforming Capital & Regional from being a traditional property company investing solely on its own behalf to becoming a co-investing asset manager. This innovative approach enables the Group to leverage its equity and management expertise across a much larger property portfolio with a view to providing significantly higher returns for its shareholders. The management teams now have responsibility for £2.4bn of property assets.

Over the years, the Group has produced good underlying returns through its direct investments. It has recognised, however, that in a low inflation environment stock market equity requires returns which cannot be achieved on a sustainable basis solely from direct investment. Capital & Regional is now a co-investing real estate asset manager. This enables the Group not only to receive returns from its co-investments, which should be no different to those it would have expected from wholly owned property activities, but also to receive fees for managing the funds which it has created.

2002 was a year of major activity. We are very pleased with the growth of the net assets per share of 15.5% after a dividend of 7.0p per share and exceptional costs of £8.7m.

We highlight below some key events:

On 3 January 2002 we formed The Junction Limited Partnership, a fund focused on dominant retail parks. This fund, initially a 50:50 joint venture between the Group and clients of Morley Fund Management Limited, at launch had a value of £336m and comprised 11 retail parks. During its first year of operation the fund made significant progress through a series of acquisitions. The investors in this fund now comprise the Group, Norwich Union, Commercial Union and Hermes, on behalf of The British Telecom Pension Scheme. This expansion of the investor base provided the additional equity needed to make acquisitions as the opportunities arose. The fund now has a portfolio of 18 retail parks and 4 development sites with a gross asset value of £705m and our share of the fund is currently 27.6%.

On 28 February 2002, a second fund called The Mall Limited Partnership was created, focusing on in-town, covered shopping centres. This fund, initially a 50:50 joint

**Tom Chandos** Chairman

**Martin Barber** Chief Executive

venture between the Group and clients of Morley Fund Management Limited, at launch had a value of £656m and comprised 11 shopping centres. The investors in this fund now comprise the Group, Norwich Union, The Hanson Trust Pension Fund and the Prudential. Two significant recent acquisitions have increased the portfolio to 13 centres with a gross asset value of £939m as at 28 February 2003, the first anniversary of the fund's completion. Our share of the fund is currently 45.8%.

In April 2002 £50m of cash was returned to shareholders by way of a tender offer for shares, reducing shares outstanding by 22.1%.

Since the year end we have also acquired a leisure fund business from MWB Group plc, which had three funds under management focused on leisure properties. They are being managed by our Xscape management team, together with the personnel who we were pleased to welcome from MWB. This division is now known as X-Leisure and currently has approximately £608m of assets under management.

We intend to expand our funds through new investors contributing either cash or appropriate property assets and to increase rental income by further capital investment and active tenant mix management. We believe our funds will outperform the relevant benchmarks and the effectiveness of our management skills will enhance the value of our assets under management through innovation, marketing, promotion and investment.

Another major venture, in which we have a 50% interest, is the development of The Fort, Glasgow in partnership with Pillar Property PLC where construction has commenced on a major shopping park. The remaining Group properties amounting to approximately £63m (excluding our head office building in Lower Grosvenor Place) will be sold when appropriate.

**Management and Board** The substantial changes to the way that the Group has pursued its business over the past year have been reflected in corresponding changes to the Board and management.

Following the retirement of Roger Boyland from the position of Corporate Finance Director and the decision to appoint Financial Director Lynda Coral to a new role coordinating the funds development, William Sunnucks was appointed to the Board as Group Finance Director in October 2002.

PY Gerbeau, who joined the Group in September 2001 to run the Xscape operations and has responsibility for the X-Leisure division following the MWB deal, will be appointed to the Board in April 2003.

Martin Gruselle, the senior non-executive director, indicated during the course of the year that he wished to retire at the next Annual General Meeting. As the Group has grown over the past 13 years, he has made an enormous contribution, with his penetrating insight and independent eye. We record our gratitude and extend our warmest wishes to him for the future.

Within the past 15 months, the value of the properties for which the Group is responsible has increased nearly threefold, to £2.4bn. The Capital & Regional team has worked tirelessly to build this enlarged base of activity and to lay the foundations for the Group's future performance. This year, even more than in others, we would like to express our appreciation of this effort and achievement.

**Outlook** Reshaping of the Group is now complete and significant expansion of the funds has already taken place with leading institutional investors. We have three divisions specialising in the management of assets where generating higher footfall and quality tenants are the key drivers to building value. The effectiveness of our approach to achieve this has proved itself over recent years and reflects the strength of the management teams we have assembled. The community based shopping centres and high quality retail parks we manage are very well placed to make progress, even if there is a general downturn in consumer confidence, as value and convenience become even more important. We look forward to the coming year with optimism.



Tom Chandos Chairman



Martin Barber Chief Executive

## Group Finance Director's overview

We are pleased with the growth of the net assets per share of 15.5% after a dividend of 7.0p per share and exceptional costs of £8.7m.

### Total returns

Table 1 – Total returns

|                                                                           | 2002<br>£m   | 2001<br>Restated<br>£m |
|---------------------------------------------------------------------------|--------------|------------------------|
| During 2002 the Group earned a total return of £37.1m made up as follows: |              |                        |
| Profit before exceptionals and tax (see note 4)                           | 10.8         | 11.4                   |
| Exceptional items (see note 4)                                            | (8.7)        |                        |
| Gains put through reserves                                                | 40.2         | (33.4)                 |
|                                                                           | 42.3         | (22.0)                 |
| Tax                                                                       | (5.2)        | 7.1                    |
| <b>Total return</b>                                                       | <b>37.1</b>  | <b>(14.9)</b>          |
| <b>Total return on equity</b>                                             | <b>14.6%</b> | <b>(4.5%)</b>          |

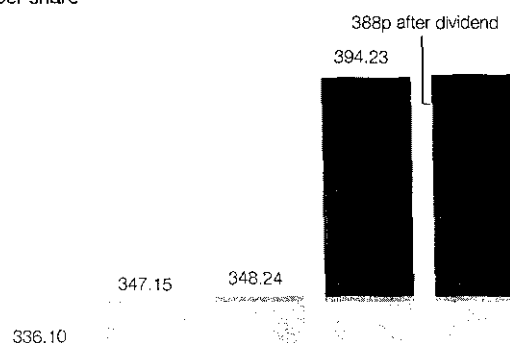
Table 1 summarises the Statement of Total Recognised Gains and Losses ("STRGL"). Much Group activity is directed towards creating an uplift in property value. The benefits of this activity flow through reserves, while the costs are all set against profit. Only tax is allocated between the two. For these reasons we consider the STRGL to be important for assessing performance.

Total return on equity, post tax, is calculated on opening shareholders' funds, reduced on a time weighted basis for the £50m share buy back in April 2002.

The exceptional items relate to costs incurred in repositioning the Group (see note 4 for details).

William Sunnucks Group Finance Director

Growth in NAV per share  
pence per share



# £37.1m

Total return

# 388p

Net asset value per share

# £2.4bn

Properties currently under management

## Profit and loss account

Table 2 – Profit and loss account

| The Group's profit can be broken down as follows: | Asset Management<br>£000 | Snow slope business<br>£000 | Share of JVs and associates<br>£000 | Wholly owned properties<br>£000 | Total for 2002<br>£000 | Total for 2001<br>£000 |
|---------------------------------------------------|--------------------------|-----------------------------|-------------------------------------|---------------------------------|------------------------|------------------------|
| <b>Segmental profits</b>                          |                          |                             |                                     |                                 |                        |                        |
| Asset management fees                             | 7,262                    |                             |                                     |                                 | 7,262                  | 1,509                  |
| Performance fees                                  | 2,781                    |                             |                                     |                                 | 2,781                  | –                      |
| Snow slope income                                 |                          | 4,044                       |                                     |                                 | 4,044                  | 3,522                  |
| Rental and other income                           |                          |                             |                                     | 12,123                          | 12,123                 | 57,084                 |
| <b>Group turnover</b>                             | 10,043                   | 4,044                       |                                     | 12,123                          | 26,210                 | 62,115                 |
| Share of joint ventures and associates            |                          |                             | 27,298                              |                                 | 27,298                 | 3,068                  |
| Snow slope expenses                               |                          | (3,777)                     |                                     |                                 | (3,777)                | (3,433)                |
| Property costs                                    |                          |                             |                                     | (1,986)                         | (1,986)                | (8,052)                |
| Net interest payable                              |                          |                             |                                     |                                 |                        |                        |
| – on non-recourse borrowings                      |                          |                             | (14,956)                            |                                 | (14,956)               | (2,447)                |
| – on own borrowings                               |                          |                             | (3,465)                             | (6,603)                         | (10,068)               | (31,946)               |
| <b>Contribution</b>                               | 10,043                   | 267                         | 8,877                               | 3,534                           | 22,721                 | 19,305                 |
| Property management overhead                      |                          |                             |                                     |                                 | (14,261)               | (9,564)                |
| Profit on disposals (net)                         |                          |                             |                                     |                                 | 2,319                  | 1,622                  |
| <b>Profit before exceptionals</b>                 |                          |                             |                                     |                                 | 10,779                 | 11,363                 |
| Exceptional items (see note 4)                    |                          |                             |                                     |                                 | (8,706)                | –                      |
| <b>Profit before taxation</b>                     |                          |                             |                                     |                                 | 2,073                  | 11,363                 |

**Asset management** The Group charges fees for the asset management of the Mall and Junction portfolios and joint ventures. Fees earned in 2002 covered 70% of the Group's overhead. These include performance fees which enable the Group to share in the upside when fund returns exceed the relevant hurdles. Performance fees are accumulated over a three year period, so estimates made in any one year may be subject to adjustment in future years.

**Snow slope business** The snow slope business operates the ski business at Xscape Milton Keynes. It charges for the use of the real snow indoor ski slope, and for tuition. It employs 174 people including casual and part time employees. It pays an arm's length rent to the partnership which owns the property. It has committed to open a similar business at the new Xscape being built at Castleford near Leeds.

**Investments in joint ventures and associates** The Xscape developments at Milton Keynes and Castleford are treated as joint ventures, along with the Glasgow Fort development.

The Mall and Junction Funds are treated as associates. The relevant figures in table 2 reflect our share of the rental income and interest expense, plus interest on Group borrowings secured on our interest in the funds.

**Wholly owned properties** These include a number of retail, office and industrial properties which have not been put into the funds. They produce rental income and incur direct management and interest expense.

**Property management overhead** This covers the cost of running the London and Glasgow offices. It has increased by 50% since 2001, while property under management has increased by 67%. Out of the £14.3m cost, £3.8m is performance related.

**Change of accounting policy** The comparatives have been restated because the Group has adopted FRS 19 which requires full provision to be made for deferred tax on all short term timing differences (see note 1).

**Table 3 – Property under management**

| Total property under management<br>is currently estimated at £2.4bn built<br>up as follows: | 31 December<br>2002<br>£m | 25 December<br>2001<br>£m | Increase    |
|---------------------------------------------------------------------------------------------|---------------------------|---------------------------|-------------|
| Investment properties                                                                       | 55.5                      | 703.3                     |             |
| Trading properties                                                                          | 7.8                       | 28.1                      |             |
| Joint ventures                                                                              | 133.3                     | 155.2                     |             |
| Mall Fund                                                                                   | 724.4                     | –                         |             |
| Junction Fund                                                                               | 535.6                     | –                         |             |
| Other properties under management                                                           | 39.8                      | –                         |             |
| <b>Total at 31 December 2002</b>                                                            | <b>1,496.4</b>            | <b>886.6</b>              | <b>1.69</b> |
| Three retail parks<br>acquired by the Junction Fund                                         | 142.7                     | –                         |             |
| Two shopping centres<br>acquired by the Mall Fund                                           | 213.6                     | –                         |             |
| Leisure funds ex MWB Group                                                                  | 504.0                     | –                         |             |
| <b>Estimated total at 31 March 2003</b>                                                     | <b>2,356.7</b>            | <b>886.6</b>              | <b>2.66</b> |

### Funding strategy

**Group borrowings** These have fallen during the year from £441m to £95m. We continue to borrow from banks which have demonstrated a commitment to property lending and have experienced property teams. All bank borrowings are secured.

**Joint ventures** Our main joint ventures – Xscape, Milton Keynes, Xscape, Castleford and Glasgow Fort – are funded with limited recourse bank debt. Group guarantees are carefully limited to specific events, principally cost over runs and interest shortfalls.

**Associates** The Mall and Junction properties are funded with approximately 50% equity and 50% bank debt. There is no recourse to the Group for these borrowings.

**Hedging** The Group's main exposure is to interest rate movements. During the year much of the bank debt was repaid, and new bank debt was raised within the funds. Loan breakage costs of £3.9m are included in exceptional items.

The Group's exposure is now partially hedged by interest rate swaps within the funds and joint ventures. Interest on the Group's CULS is fixed at 6.75%. Interest on the £95m borrowed from the banks was at a floating rate at the year end. The balance between borrowing at floating and fixed interest rates is continually reviewed in the light of market conditions and business requirements.

**Dividend** The Directors are recommending a final dividend of 4.0p making a total for the year of 7.0p per share, an increase of 17% (2001: 6.0p). The dividend will be paid on 16 June 2003 to shareholders on the register at the close of business on 25 April 2003. Our facility for dividend reinvestment by shareholders continues.

**Post balance sheet events** The principal post balance sheet events have been:

- > the acquisition of the Leisure Fund management division of MWB Group plc, which completed on 24 January 2003 at a price of £30.2m. The purchase included equity interests in the three funds, together with the rights to deferred fund management fees and carried interests together valued at £16.9m;
- > the acquisition of two shopping centres by The Mall Fund, at Chester and Sutton Coldfield;
- > the acquisition of three retail parks by The Junction Fund, at Bristol, Glasgow and Worcester.

Total property under management is currently estimated at £2.4bn as set out in table 3.



**William Sunnucks** Group Finance Director



## Operating review

### Return to investors, on an annualised basis, after fees:

The Junction Fund – 17.8%  
The Mall Fund – 21.6%

#### Shopping centres

2002 was a record year for UK shopping centre transactions; over 100 centres changed hands for £4.5bn. This is twice the 2001 level and 40% up on a four-year average. In our segment of the market, community shopping centres, positive cash flows relative to cost of debt means there remains an active investment market, particularly among property companies. Consumer spending slowed a little during the year, but was still quite strong. We saw a late, but positive, critical Christmas season with strong post-Christmas sales. We continue to see selective but healthy retailer requirements.

**The Mall Fund** This fund was launched at the end of February 2002. For the ten month period to the end of December 2002 it showed, on an annualised basis, a return to investors after fees, of 21.6%; a very strong performance. The ungeared property returns were 14.7% on the same basis.

The key drivers to this performance were as follows:

A yield shift of 50 basis points across the portfolio as a whole, about half of which we estimate is attributable to an improvement in the "quality" (i.e. reduced risk) of income streams, and the balance is a result of general improvement in market sentiment towards the sector over the period. Active management initiatives resulted in a 6.9% increase in net income over the nine months since the end of March. At the period end, the average net initial yield from the portfolio was 7.12% and an equivalent yield of 7.63%.

Since the period end there has been positive development of our stated expansion strategy. The Gracechurch Centre in Sutton Coldfield was purchased for £104m and the Grosvenor Centre in Chester was purchased for £106m.

**The Mall Fund outlook** During 2002 pedestrian flows to shopping centres as a whole in the UK decreased by 1.7% (Source: Footfall National Index). After eliminating footfall returns from the Pallasades in Birmingham and Liberty II in Romford because of massive redevelopment in the town centres affecting consumer visits, as a whole our centres showed a 5.1% footfall increase. Looking forward, our management efforts to increase consumer visits and to take market share from the rest of the catchment will continue, but no business is totally immune from the current world events. We are seeing, nonetheless, as a result of increasing trade by our occupiers in our centres, significant but affordable rental value growth.

#### Retail parks

Demand from retailers for quality retail park floor space remained strong throughout the year. Retail warehouse investment became increasingly popular amongst institutions throughout the year, resulting in yield shifts which often did not correspond to the type and quality of investment and the ongoing demand from retailers.

**The Junction Fund** The Junction Limited Partnership was launched in January 2002. For the 12 month period to the end of December 2002 it showed, on an annualised basis, a return to investors after fees, of 17.8%. The ungeared property returns were 13.3% on the same basis. This is a highly satisfactory result.

Since the creation of the fund, we have made significant progress with our stated expansion strategy:

In July 2002 we acquired a portfolio of four parks for £145m from Burford Holdings Ltd. The retail parks are The Octagon Retail Park in Stoke, Lakeside Extra Retail Park in Thurrock, Euro Retail Park in Ipswich and Cockhedge Shopping Park in Warrington. Simultaneous to this acquisition, Commercial Union Life Fund invested £71m in to the fund. One of the smaller retail parks in this portfolio has since been sold for £20m. In September 2002, Hermes, on behalf of British Telecom Pension Scheme, became an investor in the fund through the injection of two retail parks valued at £67m. The parks are Reading Retail Park in Reading and the Ocean Retail Park in Portsmouth, together with an adjoining industrial estate.

Since the period end we have continued with the growth phase of the funds that we have under management:

In January 2003 we created a limited partnership called The Junction Thurrock Limited Partnership – 65% owned by The Junction Limited Partnership and 35% owned by clients of Aberdeen Property Investors ("API"). The new partnership acquired Lakeside Extra for £45m from The Junction Limited Partnership, the Tunnel Retail Park from clients of API for £21m and the West Thurrock Retail Park from AXA Real Estate Investment Managers on behalf of AXA Sun Life plc for £35m. All of these parks are adjoining and are in Thurrock, Essex. The objective is to create the dominant destination park in Thurrock with its excellent profile to the M25.

| Fund statistics              | The Mall | The Junction |
|------------------------------|----------|--------------|
| Net rental income (£m)       | 42.9     | 22.1         |
| Properties at valuation (£m) | 724.4    | 535.6        |
| Underlying valuation change  | 8.0%     | 5.5%         |
| Total fund return (geared)   | 21.6%    | 17.8%        |
| Initial yield                | 7.1%     | 5.5%         |
| Equivalent yield             | 7.6%     | 6.7%         |

In February 2003, the Group, on behalf of The Junction Limited Partnership, was part of a consortium comprising Pillar Property PLC, the Hercules Unit Trust and Morley Fund Management that acquired a substantial portfolio of retail parks and development sites from Chartwell, a subsidiary of Kingfisher plc, for a total consideration of £696m. Pursuant to this transaction, The Junction Limited Partnership acquired three prime destination retail parks in Bristol, Glasgow and Worcester, together with a development opportunity in Stoke-on-Trent with a gross asset value of £143m. A smaller retail park in Bristol was sub-sold before completion at a profit.

Following these acquisitions, the Junction portfolio now comprises 18 destination retail parks totalling over 3.3 million sq ft together with 4 development sites offering the potential of 600,000 sq ft of additional floor space. On completion of our business plans for these properties there is the potential to create 22 destination retail parks comprising approximately 5 million sq ft. Our success in attracting new investors has provided us with a larger asset base over which to gear our expertise to create value. We believe that we have the potential to achieve exceptional rental growth by actively managing these retail warehouse parks to exploit the footfall of category killer destination stores.

We are nearing completion of the first phase of our re-branding programme. The first branded Junction retail park opens in Hull in April 2003 together with our first pre-let "Pod" development.

The government's attitude to out-of-town retailing continues to harden with planning consents for new schemes becoming increasingly difficult to obtain. This has led to our planning application at Aylesbury, which was supported by the local authority and in accordance with the draft local plan, being "called in". A public enquiry will be held in April 2003 and a formal planning decision is anticipated by the year-end.

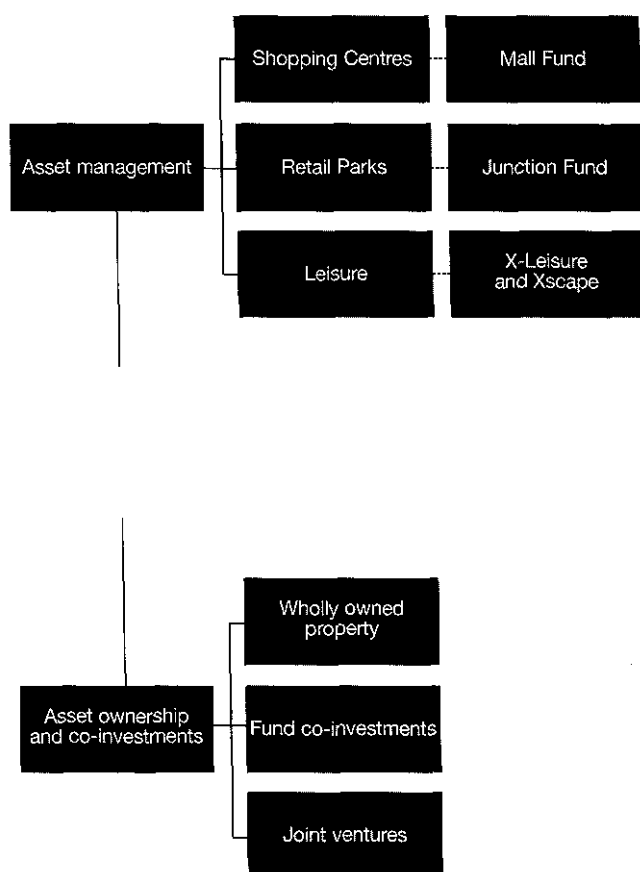
Significant progress has been made on our proposed 400,000 sq ft scheme at Oldbury with the government's planning inspector having approved our proposals. A detailed planning application has been submitted to the local authority and we anticipate obtaining consent in May 2003, subject again to final ratification by central government.

**The Junction Fund outlook** We are continuing to see a healthy level of demand from retailers for quality destination retail park floor space. We believe that retailer demand for secondary floor space will diminish. We now manage a largely prime portfolio of destination retail parks well suited to the more stringent demands of quality retailers. Good and prime retail warehouse investments remain top of "the shopping list" for investors, thereby continuing the downward pressure on yields.

#### Other Joint Ventures

**Glasgow Fort** Since the period end, in a joint venture between the Group and Pillar Property PLC, we have successfully completed the acquisition of a prominent 90 acre site east of Glasgow and adjacent to Junction 10 of the M8 motorway. Construction of the scheme, comprising some 350,000 sq ft of open A1 retail and leisure space, commenced in March 2003 and will provide Glasgow with its first shopping park. Completion is due in autumn 2004, when the ultimate value is projected to be in excess of £140m.

**The Capital Hill Partnership** In December 2002, the Group announced that we had sold our 50% interest in the Capital Hill Partnership to Hermes Property Unit Trust for £20m. The Partnership had one asset, The Maybird Centre in Stratford-upon-Avon which we continue to manage.



## Leisure

**X-Leisure** The purchase of the MWB Group plc leisure fund business was a natural development given the platforms we have created in this sector. Xscape, Milton Keynes is making excellent progress and Xscape, Castleford is being completed to plan. The management team we have assembled, led by PY Gerbeau, is amongst the most capable in the leisure property sector today. We are well placed to transform the performance of the MWB Group plc leisure assets. The business has now been branded X-Leisure.

We have some expansion and rather different ideas on how to manage and deal with the properties in the funds and are talking to investors about these and will report further to shareholders in due course.

**Xscape** Our first Xscape in Milton Keynes has had a very good second year. The footfall has increased by 22% compared to the first year despite it no longer being a "novelty" attraction; one might have expected it to have fallen. The length of time that people stay in the building has also increased significantly. The occupiers report that they are trading well and new revenue streams from corporate hospitality, sponsorship and events have been developed.

At Milton Keynes we are seeing good evidence of rental growth with leases being sold at significant premiums.

The second Xscape at Castleford, Leeds will open in September 2003. We hope to commence construction of Xscape, Glasgow in Braehead at the beginning of 2004. Within Xscape, our wholly owned subsidiary that operates the real snow indoor ski slope made a profit of £270,000 in 2002 and will also lease the snow operation at Xscape, Castleford.

Due to the acquisition of the MWB leisure funds business we have decided to withdraw from expansion in to continental Europe so that management can focus its efforts 100% on the UK market. Therefore the projects in Germany and Belgium have been terminated.

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#### Board of Directors

**01 Martin Barber, Chief Executive** Age 58 Martin was a founder director of the Company in 1979 and has been involved in commercial property as a developer and investor for over 30 years. Martin is also Chairman of CenterPoint Properties Trust, a real estate investment trust, listed on the New York Stock Exchange and formerly a subsidiary of Capital & Regional.

**02 Xavier Pullen, Deputy Chief Executive** Age 51 Xavier was a founder director of the Company in 1979 and has been active in the property industry for over 30 years. Xavier focuses primarily on the supervision of the Group's fund management business together with the coordination of all property matters.

**03 William Sunnucks, Group Finance Director** Age 46 William Sunnucks was appointed Group Finance Director in October 2002. He has been Finance Director of a number of large companies, including Securum International and English Welsh and Scottish Railways. He is a chartered accountant, and has an MBA from the London Business School. William has responsibility for the Group's finances, including funding, reporting and financial control.

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**04 Kenneth Ford, BSc FRICS Managing Director of Shopping Centres** Age 49 Ken has been a director of Capital & Regional since 1997 and, as Chief Executive of The Mall, is responsible for the fund's shopping centre portfolio. Ken has been involved in commercial property for 27 years. He founded the Easter Management Group Scotland in 1991 prior to joining Capital & Regional.

**05 Andrew Lewis-Pratt, BSc ARICS Managing Director of Retail Parks** Age 45 Andrew Lewis-Pratt has been a director of Capital & Regional since 1997 and, as Chief Executive of The Junction, is responsible for the fund's retail park portfolio. Andrew has over 20 years' experience within the retail and leisure sector and was previously Chief Executive of Lanham plc, prior to its acquisition by Capital & Regional in 1997.

**06 Tom Chandos, Chairman** Age 50 Tom Chandos is Managing Director of Northbridge Ventures Limited, a London-based venture capital business. He is a non-executive director of Global Natural Energy plc and a director of a number of private companies, including Cine-UK Limited and Hudson Sandler Limited. He was appointed as a director of the Company in 1993 and as Chairman in 2000.

**07 Martin Gruselle**, Age 65 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 Development Group plc. He was appointed as a director of the Company in 1989.

**08 Peter Duffy**, Age 66 Peter Duffy was previously Managing Director of TR Property Investment Trust plc and Chairman of European City Estates N.V. He is a director of Nightingale Square Properties plc. He was appointed as a director of the Company in 1995.

**09 David Cherry**, Age 65 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. He was appointed as a director of the Company in 1997.

## Five Year Record

for the periods ended 25 December 1998  
to 31 December 2002

|                                             | 2002   | (Restated)<br>2001 | (Restated)<br>2000 | (Restated)<br>1999 | (Restated)<br>1998 |
|---------------------------------------------|--------|--------------------|--------------------|--------------------|--------------------|
| Number of shares in issue (million)         | 61.746 | 78.856             | 88.735             | 98.266             | 98.255             |
| Diluted number of shares in issue (million) | 74.347 | 91.268             | 101.147            | 110.678            | 110.667            |
| Net assets per share*                       | 388.4p | 336.1p             | 350.3p             | 370.3p             | 316.7p             |
| Net assets per share growth*                | 15.5%  | (4.1%)             | (5.4%)             | 16.9%              | 16.4%              |

|                            | £000    | £000    | £000    | £000    | £000    |
|----------------------------|---------|---------|---------|---------|---------|
| <b>Capital employed*</b>   | 270,003 | 287,241 | 333,889 | 394,089 | 331,856 |
| Borrowings                 | 95,136  | 440,894 | 590,449 | 577,891 | 340,926 |
| Cash at bank               | 4,159   | 8,567   | 6,091   | 7,388   | 5,476   |
| Net bank debt              | 90,977  | 432,327 | 584,358 | 570,503 | 335,450 |
| Convertible loan stock     | 24,314  | 24,223  | 24,132  | 24,041  | 23,950  |
| Net debt                   | 115,291 | 456,550 | 608,490 | 594,544 | 359,400 |
| Net debt/capital employed† | 30.9%   | 138.8%  | 163.2%  | 136.4%  | 94.3%   |

|                                               | £000  | £000   | £000   | £000   | £000   |
|-----------------------------------------------|-------|--------|--------|--------|--------|
| Profit on ordinary activities before taxation | 2,073 | 11,363 | 14,168 | 12,838 | 11,481 |
| Earnings per share*                           | 1.3p  | 24.0p  | 9.7p   | 9.7p   | 9.9p   |
| Dividend per share                            | 7.0p  | 6.0p   | 5.5p   | 5.0p   | 4.25p  |

†Assuming conversion of the convertible loan stock to equity.

\*As adjusted for Financial Reporting Standard No. 19 "Deferred Tax".

# Directors' Remuneration report

**Introduction** This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance set out in the Regulations relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the annual report and accounts will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

## Unaudited information

**Remuneration Committee** The present members of the Committee, all of whom are non-executive directors, are T. Chandos, D. Cherry and M. Gruselle (Chairman).

The Committee is responsible for setting the remuneration policy for the executive directors and senior employees. The Committee determines the terms of the service agreements, salaries and discretionary bonus payments, as well as deciding on the awards to be made to all participants in the Long Term Incentive Plan ("LTIP") and Capital Appreciation Plan ("CAP") approved by shareholders on 18 December 2002. In determining the directors' remuneration for the year, the Committee consulted M. Barber (Chief Executive) about its proposals. Advice from independent external advisers is obtained when required. During 2002, it appointed and received advice on the structuring of the LTIP and CAP from Deloitte & Touche. Deloitte & Touche did not advise on the level of remuneration to be paid to the executive directors. Deloitte & Touche are the Company's auditors and have also provided a range of non-audit services (including acting as reporting accountants and providing tax advice) during the year.

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

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

**Basic salaries** The Committee's policy is to set the basic salaries of each executive director at levels which reflect their roles, experience and the practices in the employment market. The Committee has determined that there should be no increase in basic salaries for 2003.

**Annual Bonus Scheme** For 2002 and future years, the Committee will award cash bonuses to the executive directors based on an assessment of their individual achievements during the year.

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

- The 1988 Share Option Schemes ("the Closed Schemes")
- The 1998 Share Option Schemes ("the 1998 Schemes")
- The LTIP
- The CAP

Shareholder approval for the Closed Schemes expired in May 1998 and no further options may be granted under those Schemes. No further awards will be made under the 1998 Schemes to participants in the LTIP.

All the present executive directors (and L. Coral) are participants in the LTIP. In addition, three other key executives are also participants in the LTIP. The terms of the LTIP permit the Committee to make conditional awards of shares annually to key executives with a market value not exceeding 100% of the participants' basic salary. In 2002, a total of 523,189 shares were conditionally awarded to the executive directors (and L. Coral) and three other key executives. The conditions of exercise of the LTIP are designed to motivate the key executives and retain them in the Company's employment. Details of the awards made in 2002 and a summary of the exercise conditions are set out under the Audited Information – Long Term Incentive Plan below.

All the present executive directors (and L. Coral) are participants in the CAP. In addition, three other key executives are also participants in the CAP. The terms of the CAP permit the Committee to make awards annually to key executives which will entitle them to receive payments in aggregate of up to 30% of the Performance Fees received by the Company from the Mall and Junction Funds. A total of £834,300 has been awarded to the executive directors (and L. Coral) and three other key executives in respect of the performance fees earned in 2002; the individual entitlements for 2002 will be reduced by 80% of the value of the shares awarded under the LTIP – to the extent that the awards vest. Details of the awards made in respect of 2002, and a summary of the conditions affecting payment, are set out under the Audited Information – Capital Appreciation Plan below.

**Pension arrangements** The Company makes contributions (at differing rates of basic salary) to defined contribution pension schemes of each executive director's choice except that in the cases of M. Barber and X. Pullen £49,000 and £18,500 salary in lieu of pension contributions were paid to them respectively.

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

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

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

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

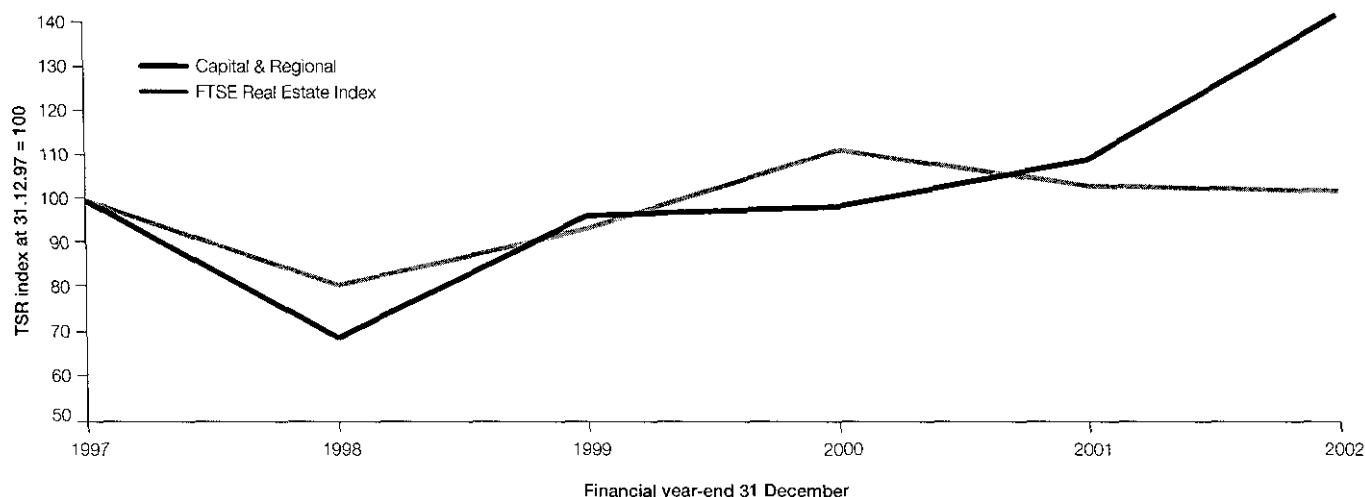
|                |                              |
|----------------|------------------------------|
| M. Barber      | 28 October 1993              |
| X. Pullen      | 28 October 1993              |
| K. Ford        | 17 May 1996                  |
| A. Lewis-Pratt | 20 January 1998              |
| W. Sunnucks    | 15 October 2002              |
| R. Boyland     | (resigned 30 September 2002) |
| L. Coral       | (resigned 31 December 2002)  |

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

The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes. None has a service agreement and all are appointed for three year fixed terms.

**Performance Graph:** The new regulations require this report to contain a graph illustrating the Company's performance compared to a broad equity market index. As the Company is a constituent of the FTSE Real Estate index, this index is considered to be the appropriate comparator for this purpose. Performance is measured by Total Shareholder Return (share price growth plus dividends paid).

Total Shareholder Return for period 31 December 1997 to 31 December 2002





**Audited information:**

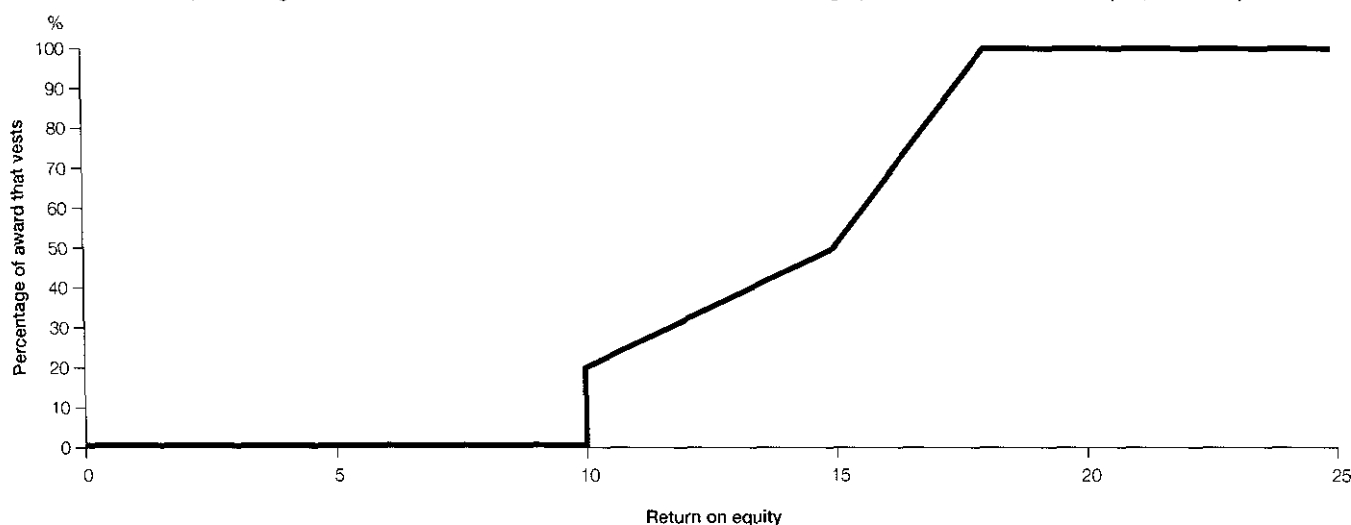
**Long Term Incentive Plan** The plan was approved by shareholders on 18 December 2002. The directors have interests in the plan as set out below:

|                | Shares<br>conditionally<br>awarded<br>in year | Market price<br>on date of<br>award<br>(pence) | End of<br>qualifying<br>period | Conditional<br>award held at<br>31 December<br>2002 |
|----------------|-----------------------------------------------|------------------------------------------------|--------------------------------|-----------------------------------------------------|
| M. Barber      | 84,138                                        | 310.5                                          | 31 Dec 04                      | 84,138                                              |
| X. Pullen      | 79,549                                        | 310.5                                          | 31 Dec 04                      | 79,549                                              |
| K. Ford        | 76,490                                        | 310.5                                          | 31 Dec 04                      | 76,490                                              |
| A. Lewis-Pratt | 76,490                                        | 310.5                                          | 31 Dec 04                      | 76,490                                              |
| R. Boyland     | —                                             | —                                              | —                              | —                                                   |
| L. Coral       | 56,602                                        | 310.5                                          | 31 Dec 04                      | 56,602                                              |
| W. Sunnucks    | 30,596                                        | 310.5                                          | 31 Dec 04                      | 30,596                                              |

In addition, 119,324 shares were awarded to three key employees at 310.5p.

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

The extent to which shares conditionally awarded in 2002 will vest is determined by reference to the level of the Group's average post tax return on equity (ROE) for the financial years ended 31 December 2002, 2003 and 2004. None of the shares will vest if the ROE is less than 10%; 20% of the shares will vest if the ROE is 10%; 100% of the shares will vest if the ROE is 18% or above. If ROE falls between 10% and 18% the percentage of shares which will vest can be determined from the graph which is for illustrative purposes only.



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

**Capital Appreciation Plan** The plan was approved by shareholders on 18 December 2002.

In accordance with the terms of the plan, the directors have been awarded the following interests in the performance fees receivable by the Group in respect of the financial year 2002.

The interests awarded will only be paid in full if none of the shares conditionally awarded under the LTIP in 2002 vest in 2005. The value of the initial award will be reduced pro rata to the extent that any part of the performance fees received by the Group in respect of 2002 are clawed back as a result of under-performance of the Funds in 2003 or 2004. Consequently, no payments will be made in respect of the 2002 awards until 2005, when this right lapses.

|                | Interest awarded<br>in respect of<br>2002<br>% | Value of<br>initial award in<br>respect of 2002<br>£ | Maximum<br>amount<br>of offset<br>Note 1 | Maximum<br>offset carried<br>forward<br>Note 2 |
|----------------|------------------------------------------------|------------------------------------------------------|------------------------------------------|------------------------------------------------|
| M. Barber      | 5.50                                           | 152,955                                              | 208,999                                  | 56,444                                         |
| X. Pullen      | 6.00                                           | 166,860                                              | 197,600                                  | 30,740                                         |
| K. Ford        | 7.25                                           | 201,623                                              | 190,001                                  | Nil                                            |
| A. Lewis-Pratt | 3.25                                           | 90,382                                               | 190,001                                  | 99,619                                         |
| R. Boyland     | -                                              | -                                                    | -                                        | -                                              |
| L. Coral       | 3.00                                           | 83,430                                               | 140,599                                  | 57,169                                         |
| W. Sunnucks    | 0.75                                           | 20,858                                               | 76,000                                   | 55,142                                         |
|                | 25.75                                          | 716,108                                              |                                          |                                                |

In addition, 4.25% interests with a value of £118,192 were awarded in respect of 2002 to three key executives who were not directors. The same key executives received LTIP awards whose maximum gross aggregate offset amounted to £296,401.

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

Note 2. If the finally determined amount of the offset exceeds the value of the CAP award, the excess will be carried forward to be offset against future awards under the CAP.

**Directors' remuneration** The remuneration of the directors who served in the year ended 31 December 2002 is analysed below:

|                 | 2002                       |                                |                                  |                           |                      | 2001          |
|-----------------|----------------------------|--------------------------------|----------------------------------|---------------------------|----------------------|---------------|
|                 | Salary<br>and fees<br>£000 | Discretionary<br>bonus<br>£000 | Pension<br>contributions<br>£000 | Other<br>benefits<br>£000 | Compensation<br>£000 | Total<br>£000 |
| M. Barber*      | 275                        | 260                            | 49                               | 28                        |                      | 612           |
| X. Pullen**     | 260                        | 260                            | 50                               | 21                        |                      | 591           |
| K. Ford         | 250                        | 240                            | 38                               | 21                        |                      | 549           |
| A. Lewis-Pratt  | 250                        | 240                            | 38                               | 21                        |                      | 549           |
| R. Boyland***   | 139                        |                                | 24                               | 17                        | 360                  | 540           |
| L. Coral****    | 183                        | 175                            | 28                               | 20                        | 75                   | 481           |
| W. Sunnucks     | 38                         | 45                             | 4                                | 5                         |                      | 92            |
|                 | 1,395                      | 1,220                          | 231                              | 133                       | 435                  | 3,414         |
| T. Chandos***** | 98                         |                                |                                  |                           |                      | 98            |
| M. Gruselle     | 35                         |                                |                                  |                           |                      | 35            |
| D. Cherry       | 25                         |                                |                                  |                           |                      | 25            |
| P. Duffy        | 25                         |                                |                                  |                           |                      | 25            |
|                 | 183                        |                                |                                  |                           |                      | 183           |
| Total           | 1,578                      | 1,220                          | 231                              | 133                       | 435                  | 3,597         |

\*£49,000 was paid to M. Barber as salary in lieu of pension contributions in 2002 (October 2001 – December 2001: £9,000).

\*\*£18,500 was paid to X. Pullen as salary in lieu of pension contributions since October 2002 (2001: £nil).

\*\*\*R. Boyland received £360,000 as compensation for the early termination of his service contract. He ceased to be a director on 30 September 2002.

\*\*\*\*L. Coral ceased to be a director on 31 December 2002. The payment of £75,000 was made in consideration for L. Coral entering into a new service agreement which, inter alia, has a six months' notice period on either side.

\*\*\*\*\*Including fees of £7,500 received (2001: £15,000) from Easter Holdings Limited and Easter Capital Investment Holdings Limited for services as a non-executive director for the period until the Group disposed of its interest in Easter Holdings Limited.

**Interests in shares** The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) were beneficially interested in the Ordinary share capital of the Company at the date shown as follows:

|                                  | Ordinary shares of 10p each |                            | 6.75% convertible subordinated unsecured loan stock 2006/16 |                       |
|----------------------------------|-----------------------------|----------------------------|-------------------------------------------------------------|-----------------------|
|                                  | 31 December 2002<br>Shares  | 25 December 2001<br>Shares | 31 December 2002<br>£                                       | 25 December 2001<br>£ |
| M. Barber                        | 2,146,366                   | 2,146,366                  | 35,394                                                      | 35,394                |
| X. Pullen                        | 809,545                     | 1,004,545                  | 23,693                                                      | 23,693                |
| R. Boyland                       | 397,485                     | 557,485                    | 13,000                                                      | 13,000                |
| L. Coral                         | 4,861                       | 4,861                      | 25                                                          | 25                    |
| K. Ford                          | 381,951                     | 381,905                    | -                                                           | -                     |
| A. Lewis-Pratt                   | 14,153                      | 14,153                     | -                                                           | -                     |
| M. Gruselle                      | 50,653                      | 50,653                     | 943                                                         | 943                   |
| T. Chandos                       | 45,000                      | 45,000                     | 15,000                                                      | 15,000                |
| P. Duffy                         | -                           | -                          | -                                                           | -                     |
| D. Cherry                        | 4,138                       | 4,138                      | -                                                           | -                     |
| <b>Total at 31 December 2002</b> | <b>3,854,152</b>            | <b>4,209,106</b>           | <b>88,055</b>                                               | <b>88,055</b>         |

There have been no changes to the directors' interests since 31 December 2002, except W. Sunnucks who purchased 9,185 Ordinary shares of 10p each on 31 March 2003 and D. Cherry who purchased an additional 1,442 Ordinary shares of 10p each on 31 March 2003.

**Interests in share options**

| Director   | As at<br>25 December<br>2001 | Granted | Exercised | As at<br>31 December<br>2002 | Exercise<br>price<br>(pence) | Market price<br>at date of<br>exercise<br>(pence) | Earliest<br>exercise<br>date | Latest<br>exercise<br>date | Exercise<br>condition<br>met |
|------------|------------------------------|---------|-----------|------------------------------|------------------------------|---------------------------------------------------|------------------------------|----------------------------|------------------------------|
| M. Barber  | 136,878                      |         |           | 136,878                      | 168.9                        |                                                   | 22 December 1996             | 22 December 2003           | Yes                          |
|            | 104,263                      |         |           | 104,263                      | 131.4                        |                                                   | 28 October 1997              | 22 October 2004            | Yes                          |
|            | 50,582                       |         |           | 50,582                       | 226.4                        |                                                   | 18 June 2000                 | 18 June 2004               | Yes                          |
|            | 50,000                       |         |           | 50,000                       | 211.5                        |                                                   | 13 September 2003            | 13 September 2010          | Not yet                      |
|            | 341,723                      |         |           | 341,723                      |                              |                                                   |                              |                            |                              |
| R. Boyland | 136,878                      |         |           | 136,878                      | 168.9                        |                                                   | 22 December 1996             | 31 March 2003              | Yes                          |
|            | 104,263                      |         |           | 104,263                      | 131.4                        |                                                   | 28 October 1997              | 31 March 2003              | Yes                          |
|            | 50,582                       |         |           | 50,582                       | 226.4                        |                                                   | 18 June 2000                 | 31 March 2003              | Yes                          |
|            | 100,000                      |         |           | 100,000                      | 279.5                        |                                                   | 18 May 2001                  | 30 September 2003          | Yes                          |
|            | 50,000                       |         |           | 50,000                       | 211.5                        |                                                   | 13 September 2003            | 30 September 2003          | Not yet                      |
|            | 441,723                      |         |           | 441,723*                     |                              |                                                   |                              |                            |                              |
| X. Pullen  | 136,878                      |         |           | 136,878                      | 168.9                        |                                                   | 22 December 1996             | 22 December 2003           | Yes                          |
|            | 104,263                      |         |           | 104,263                      | 131.4                        |                                                   | 28 October 1997              | 22 October 2004            | Yes                          |
|            | 50,582                       |         |           | 50,582                       | 226.4                        |                                                   | 18 June 2000                 | 18 June 2004               | Yes                          |
|            | 100,000                      |         |           | 100,000                      | 279.5                        |                                                   | 18 May 2001                  | 18 May 2008                | Yes                          |
|            | 50,000                       |         |           | 50,000                       | 211.5                        |                                                   | 13 September 2003            | 13 September 2010          | Not yet                      |
|            | 441,723                      |         |           | 441,723                      |                              |                                                   |                              |                            |                              |
| L. Coral   | 50,180                       |         | 50,180    | -                            | 168.9                        | 266.0                                             | 22 December 1996             | 22 December 2003           | Yes                          |
|            | 26,066                       |         | 26,066    | -                            | 131.4                        | 266.0                                             | 28 October 1997              | 22 October 2004            | Yes                          |
|            | 78,197                       |         | 78,197    | -                            | 193.2                        | 266.0                                             | 21 October 2000              | 21 October 2007            | Yes                          |
|            | 50,582                       |         |           | 50,582                       | 226.4                        |                                                   | 18 June 2000                 | 18 June 2004               | Yes                          |
|            | 100,000                      |         |           | 100,000                      | 279.5                        |                                                   | 18 May 2001                  | 18 May 2008                | Yes                          |
|            | 25,000                       |         |           | 25,000                       | 191.5                        |                                                   | 18 February 2002             | 18 February 2009           | Not yet                      |
|            | 50,000                       |         |           | 50,000                       | 211.5                        |                                                   | 13 September 2003            | 13 September 2010          | Not yet                      |
|            | 380,025                      |         |           | 225,582                      |                              |                                                   |                              |                            |                              |

Interests in share options (continued)

| Director       | As at<br>25 December<br>2001 | Granted | Exercised | As at<br>31 December<br>2002 | Exercise<br>price<br>(pence) | Market price<br>at date of<br>exercise<br>(pence) | Earliest<br>exercise<br>date | Latest<br>exercise<br>date | Exercise<br>condition<br>met |
|----------------|------------------------------|---------|-----------|------------------------------|------------------------------|---------------------------------------------------|------------------------------|----------------------------|------------------------------|
| K. Ford        | 13,000                       |         |           | 13,000                       | 226.4                        |                                                   | 18 June 2000                 | 18 June 2007               | Yes                          |
|                | 138,747                      |         |           | 138,747                      | 226.4                        |                                                   | 18 June 2000                 | 18 June 2004               | Yes                          |
|                | 175,000                      |         |           | 175,000                      | 279.5                        |                                                   | 18 May 2001                  | 18 May 2008                | Yes                          |
|                | 75,000                       |         |           | 75,000                       | 191.5                        |                                                   | 18 February 2002             | 18 February 2007           | Not yet                      |
|                | 50,000                       |         |           | 50,000                       | 211.5                        |                                                   | 13 September 2003            | 18 September 2010          | Not yet                      |
|                | 451,747                      |         |           | 451,747                      |                              |                                                   |                              |                            |                              |
| A. Lewis-Pratt | 13,000                       |         |           | 13,000                       | 226.4                        |                                                   | 18 June 2000                 | 18 June 2007               | Yes                          |
|                | 138,747                      |         |           | 138,747                      | 226.4                        |                                                   | 18 June 2000                 | 18 June 2004               | Yes                          |
|                | 175,000                      |         |           | 175,000                      | 279.5                        |                                                   | 18 May 2001                  | 18 May 2008                | Yes                          |
|                | 75,000                       |         |           | 75,000                       | 191.5                        |                                                   | 18 February 2002             | 18 February 2007           | Not yet                      |
|                | 50,000                       |         |           | 50,000                       | 211.5                        |                                                   | 13 September 2003            | 18 September 2010          | Not yet                      |
|                | 451,747                      |         |           | 451,747                      |                              |                                                   |                              |                            |                              |

\*R. Boyland ceased to be a director on 30 September 2002. This interest is shown at the date when he ceased to be a director.

During the year, the share price ranged from a high of 318.5p to a low of 245.0p. The share price as at 31 December 2002 was 318.5p.

No share options were granted during 2002 and no further awards will be made under these schemes to participants of the Long Term Incentive Plan.

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

*Falguni Desai*

F Desai Company Secretary

11 April 2003

# Corporate Governance Statement

**Introduction** The Company is required to comply, for the accounting period ended 31 December 2002, with "The Combined Code – Principles of Good Governance and Code of Best Practice" ("the Combined Code").

In January 2003 the report entitled "Review of the role and effectiveness of non-executive directors" (the Higgs report) and the report entitled "Audit Committees – Combined Code guidance" (the Smith report) were published. The Board is giving due regard to these reports.

**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 Tom Chandos and consists of five 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. The Chairman is one of the non-executive directors, and there is a clear division of responsibility between the Chairman and the Chief Executive.

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 directors are set out on pages 10 and 11. Martin Gruselle was nominated as the senior independent director as required by the Code for the year ended 31 December 2002. As Martin Gruselle retires at the AGM on 30 May 2003, Peter Duffy will be nominated as the senior independent director.

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

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 initially by the Nomination Committee and thereafter at a full Board meeting. The Board is given an opportunity to meet the individual concerned prior to any formal decision being taken. The Nomination Committee, which consists of the Chairman, the Chief Executive, and one non-executive director meets when necessary.

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

**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 executive directors are also eligible to participate in the Long term Incentive Plan (LTIP) and Capital appreciation Plan (CAP) which were both established on 18 December 2002. Details of the plans are set out in the Directors' Remuneration report on pages 13 to 18.

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 Directors' Remuneration report on pages 13 to 18.

**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 in relation to each division, 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 directors are responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

There are ongoing processes and procedures for identifying, evaluating and managing the significant risks faced by the Company, which have been in place during 2002 and up to the date of approval of the Annual Report and Accounts. The processes are regularly reviewed by the Board and accord with the Turnbull Committee guidance on internal control issued in September 2000. Following the change in the Group's activities, the directors carried out their review of the effectiveness of the current system of internal control and updated the documentation of controls in place. Such a review is carried out at least once a year. The risks for each of the divisions in the Group (Mall division, Junction division, Xscape/X-Leisure division and Corporate division) are classified into financial/administration risks, property risks and operational risks. There are control documents for each area of risk, with clear procedures. Authority limits are clearly defined throughout the Group, including matters reserved for the approval of the Board or a specified committee or individual directors. The procedures in place for financial reporting to the executive directors and the Board include quarterly reports from the Fund Manager of the two Funds and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.

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

**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 2000 to ensure the Audit Committee's duties adequately cover all areas identified by the Code, including review of cost-effectiveness and the volume 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 2002 the Committee met three times.

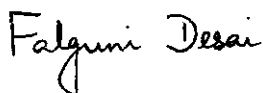
**Directors' responsibilities statement** The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for 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 period ended 31 December 2002. 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.

The directors are responsible for keeping proper accounting records, for the system of internal control, and 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 and throughout the period ended 31 December 2002, 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 Financial Services Authority.

By Order of the Board



F. Desai Company Secretary

11 April 2003

# Independent Auditors' Report to the members of Capital & Regional plc

We have audited the financial statements of Capital & Regional plc for the period from 26 December 2001 to 31 December 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the note of historical cost profit and losses, the reconciliation of movements in shareholders' funds, and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

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

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

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

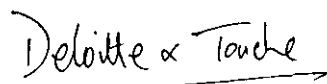
We read the directors' report and the other information contained in the annual report for the above period as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements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

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

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

**Opinion** In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the period from 26 December 2001 to 31 December 2002; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche Chartered Accountants and Registered Auditors  
London

11 April 2003

## Consolidated Profit and Loss Account for the period ended 31 December 2002

|                                                                          | Notes | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|--------------------------------------------------------------------------|-------|------------------------------------------|------------------------------------------------------|
| Turnover: Group income and share of joint ventures' turnover             |       | 34,998                                   | 77,735                                               |
| Less: share of joint ventures' turnover                                  |       | (8,788)                                  | (15,620)                                             |
| <b>Group turnover</b>                                                    | 2     | 26,210                                   | 62,115                                               |
| Cost of sales                                                            |       | (5,763)                                  | (11,485)                                             |
| <b>Gross profit</b>                                                      |       | 20,447                                   | 50,630                                               |
| Profit on sale of trading and development properties                     |       | 499                                      | 183                                                  |
| Exceptional loss on write off of European development properties         | 4     | (1,522)                                  | —                                                    |
| Total (loss)/profit on disposal of trading and development properties    | 3     | (1,023)                                  | 183                                                  |
| Administrative expenses                                                  |       | (14,261)                                 | (9,564)                                              |
| <b>Group operating profit</b>                                            |       | 5,163                                    | 41,249                                               |
| Share of operating profit in joint ventures and associates               |       | 27,298                                   | 3,068                                                |
| <b>Total operating profit</b>                                            |       | 32,461                                   | 44,317                                               |
| Exceptional costs of a fundamental reorganisation                        | 4     | (7,184)                                  | —                                                    |
| (Loss)/profit on sale of investment properties and investments           | 3     | (789)                                    | 1,439                                                |
| Profit on sale of investment properties in associates and joint ventures | 3     | 2,609                                    | —                                                    |
| <b>Profit on ordinary activities before interest</b>                     |       | 27,097                                   | 45,756                                               |
| Interest receivable and similar income                                   | 5     | 1,043                                    | 1,587                                                |
| Interest payable and similar charges                                     |       |                                          |                                                      |
| Group                                                                    | 6     | (10,649)                                 | (33,533)                                             |
| Share of associates                                                      | 6     | (12,451)                                 | —                                                    |
| Share of joint ventures                                                  | 6     | (2,967)                                  | (2,447)                                              |
|                                                                          |       | (26,067)                                 | (35,980)                                             |
| <b>Profit on ordinary activities before taxation</b>                     | 7     | 2,073                                    | 11,363                                               |
| Taxation                                                                 | 10    | (1,220)                                  | 8,145                                                |
| <b>Profit on ordinary activities after taxation</b>                      |       | 853                                      | 19,508                                               |
| Equity minority interests                                                |       | (8)                                      | 250                                                  |
| <b>Profit attributable to the shareholders of the Company</b>            |       | 845                                      | 19,758                                               |
| Equity dividends paid and payable                                        | 12    | (4,333)                                  | (4,731)                                              |
| <b>(Loss)/profit retained in the period/year</b>                         |       | (3,488)                                  | 15,027                                               |
| Earnings per share                                                       | 13a   | 1.3p                                     | 24.0p                                                |
| Earnings per share – diluted                                             | 13b   | 1.2p                                     | 22.6p                                                |

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

### Note of Historical Cost Profits and Losses for the period ended 31 December 2002

|                                                                                                    | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|----------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| Reported profit on ordinary activities before taxation                                             | 2,073                                    | 11,363                                               |
| Realisation of property revaluation surplus of previous years                                      | 46,762                                   | 22,157                                               |
| Realisation of property revaluation surplus of previous years in joint ventures                    | 1,111                                    | —                                                    |
| <b>Historical cost profit on ordinary activities before taxation</b>                               | 49,946                                   | 33,520                                               |
| <b>Historical cost profit for period retained after taxation, minority interests and dividends</b> | 40,829                                   | 33,966                                               |



## Statement of Total Recognised Gains and Losses for the period ended 31 December 2002

|                                                            | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| Profit before tax                                          | 2,073                                    | 11,363                                               |
| Movements in revaluation reserve                           |                                          |                                                      |
| on investment properties                                   | 509                                      | (33,003)                                             |
| on other fixed assets                                      | (920)                                    | (117)                                                |
| on properties held in joint ventures and associates        | 38,302                                   | (537)                                                |
| Gains on deemed disposals                                  | 2,377                                    | -                                                    |
| Minority interests                                         | (8)                                      | 250                                                  |
| Total gains/(losses) before tax                            | 42,333                                   | (22,044)                                             |
| Tax shown in profit and loss account                       | (1,220)                                  | 8,145                                                |
| Tax on revaluation surplus realised                        | (3,556)                                  | (3,218)                                              |
| Deferred tax                                               | (485)                                    | 2,205                                                |
| Total tax (charge)/credit                                  | (5,261)                                  | 7,132                                                |
| Total recognised gains and losses for the period           | 37,072                                   | (14,912)                                             |
| Prior year adjustment (see note 1)                         | (1,870)                                  |                                                      |
| Total recognised gains and losses since last annual report | 35,202                                   |                                                      |
| Return on equity for the period                            | 14.6%                                    | (4.5)%                                               |

## Reconciliation of Movements in Shareholders' Funds for the period ended 31 December 2002

|                                                                      | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|----------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| Profit for the year attributable to shareholders of the Company      | 845                                      | 19,758                                               |
| Equity dividends paid and payable                                    | (4,333)                                  | (4,731)                                              |
| (Loss)/profit retained in the period                                 | (3,488)                                  | 15,027                                               |
| Share capital and share premium issued in period (net of expenses)   | 868                                      | 34                                                   |
| Share capital purchased and cancelled in period (including expenses) | (50,845)                                 | (23,325)                                             |
| Other recognised gains and losses relating to period                 | 36,227                                   | (34,670)                                             |
| <b>Net reduction in shareholders' funds</b>                          | <b>(17,238)</b>                          | <b>(42,934)</b>                                      |
| Opening shareholders' funds as previously stated                     | 289,111                                  | 340,617                                              |
| Prior year adjustment (see note 1)                                   | (1,870)                                  | (10,442)                                             |
| Opening shareholders' funds as restated                              | 287,241                                  | 330,175                                              |
| <b>Closing shareholders' funds</b>                                   | <b>270,003</b>                           | <b>287,241</b>                                       |

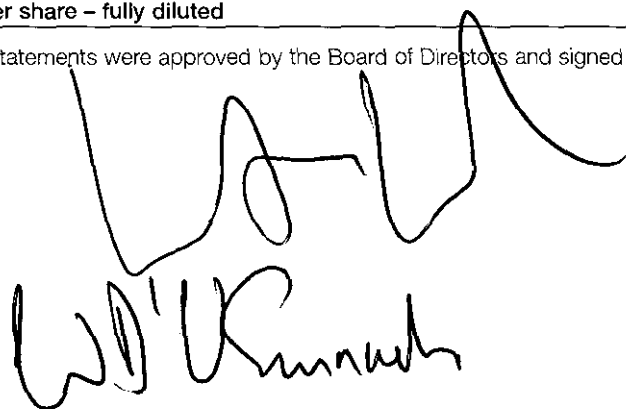
# Consolidated Balance Sheet

## as at 31 December 2002

|                                                                | Notes | £000     | 2002<br>£000 | £000     | (Restated)<br>2001<br>£000 |
|----------------------------------------------------------------|-------|----------|--------------|----------|----------------------------|
| <b>Fixed assets</b>                                            |       |          |              |          |                            |
| Property assets                                                | 14    |          | 55,475       |          | 703,338                    |
| Other fixed assets                                             | 15    |          | 12,934       |          | 13,966                     |
|                                                                |       |          | 68,409       |          | 717,304                    |
| Investment in joint ventures:                                  |       |          |              |          |                            |
| share of gross assets                                          |       |          | 77,857       |          | 91,497                     |
| share of gross liabilities                                     |       |          | (53,168)     |          | (62,014)                   |
|                                                                | 18    |          | 24,689       |          | 29,483                     |
| Investment in associates                                       | 17    |          | 286,367      |          | -                          |
|                                                                |       |          | 379,465      |          | 746,787                    |
| <b>Current assets</b>                                          |       |          |              |          |                            |
| Property assets                                                | 19    | 7,773    |              | 28,126   |                            |
| Debtors:                                                       |       |          |              |          |                            |
| amounts falling due after more than one year                   | 20    | 84       |              | 8,307    |                            |
| amounts falling due within one year                            | 20    | 27,241   |              | 27,925   |                            |
| Cash at bank and in hand                                       | 21    | 4,159    |              | 8,567    |                            |
|                                                                |       |          | 39,257       | 72,925   |                            |
| <b>Creditors: amounts falling due within one year</b>          | 22    | (29,281) |              | (70,655) |                            |
| Net current assets                                             |       |          | 9,976        |          | 2,270                      |
| Total assets less current liabilities                          |       |          | 389,441      |          | 749,057                    |
| <b>Creditors: amounts falling due after more than one year</b> | 23    |          | (117,041)    |          | (461,816)                  |
| <b>Provisions for liabilities and charges</b>                  | 26    |          | (2,397)      |          | -                          |
| <b>Net assets</b>                                              |       |          | 270,003      |          | 287,241                    |
| <b>Capital and reserves</b>                                    |       |          |              |          |                            |
| Called up share capital                                        | 27    |          | 6,175        |          | 7,886                      |
| Share premium account                                          | 28    |          | 162,752      |          | 161,927                    |
| Revaluation reserve                                            | 28    |          | 74,006       |          | 82,988                     |
| Other reserves                                                 | 28    |          | 4,289        |          | 2,535                      |
| Profit and loss account                                        | 28    |          | 22,781       |          | 31,905                     |
| <b>Equity shareholders' funds</b>                              |       |          | 270,003      |          | 287,241                    |
| <b>Net assets per share</b>                                    | 29    |          | 437p         |          | 364p                       |
| <b>Net assets per share - fully diluted</b>                    | 29    |          | 388p         |          | 336p                       |

The financial statements were approved by the Board of Directors and signed on their behalf on 11 April 2003 by:

M. Barber  
W. Sunnucks



# Consolidated Cash Flow Statement

## for the period ended 31 December 2002

|                                                        | Notes | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|--------------------------------------------------------|-------|------------------------------------------|------------------------------------------------------|
| <b>Net cash inflow from operating activities</b>       | 31a   | 2,031                                    | 38,232                                               |
| Dividends received from joint ventures                 |       | 3,355                                    | 928                                                  |
| Dividends received from associates                     |       | 9,418                                    | —                                                    |
|                                                        |       | 12,773                                   | 928                                                  |
| <b>Returns on investments and servicing of finance</b> |       |                                          |                                                      |
| Interest received                                      |       | 447                                      | 1,548                                                |
| Interest paid                                          |       | (15,158)                                 | (35,352)                                             |
| Dividend paid to minority interests                    |       | —                                        | (2)                                                  |
| Loan arrangement costs                                 |       | (374)                                    | (89)                                                 |
|                                                        |       | (15,085)                                 | (33,895)                                             |
|                                                        |       | (281)                                    | 5,265                                                |
| <b>Taxation</b>                                        |       |                                          |                                                      |
| UK corporation tax paid                                |       | (7,679)                                  | (2,962)                                              |
| UK corporation tax recovered                           |       | 73                                       | 115                                                  |
| USA withholding tax recovered                          |       | —                                        | 70                                                   |
|                                                        |       | (7,606)                                  | (2,777)                                              |
|                                                        |       | (7,887)                                  | 2,488                                                |
| <b>Capital expenditure and financial investment</b>    |       |                                          |                                                      |
| Payments for:                                          |       |                                          |                                                      |
| Additions to investment properties                     |       | (18,510)                                 | (20,110)                                             |
| Additions to properties held as current assets         |       | (9,544)                                  | (18,407)                                             |
| Additions to other tangible assets                     |       | (280)                                    | (306)                                                |
| Loans to joint ventures                                |       | (850)                                    | (4,820)                                              |
| Receipts from:                                         |       |                                          |                                                      |
| Sale of investment properties                          |       | 645,842                                  | 216,033                                              |
| Sale of properties held as current assets              |       | 28,122                                   | 16,778                                               |
| Sale of other tangible assets                          |       | 6                                        | 112                                                  |
| Sale of investments                                    |       | 20,203                                   | —                                                    |
| Repayment of loans by joint ventures                   |       | 8,050                                    | 1,710                                                |
|                                                        |       | 673,039                                  | 190,990                                              |
|                                                        |       | 665,152                                  | 193,478                                              |
| <b>Acquisitions and disposals and exceptional item</b> |       |                                          |                                                      |
| Additions to joint ventures and associates             |       | (262,203)                                | —                                                    |
| Costs of fundamental reorganisation                    |       | (7,016)                                  | —                                                    |
| Acquisition of minority interests in subsidiary        |       | —                                        | (2,929)                                              |
|                                                        |       | (269,219)                                | (2,929)                                              |
|                                                        |       | 395,933                                  | 190,549                                              |
| <b>Equity dividends paid</b>                           |       | (4,623)                                  | (4,855)                                              |
| <b>Cash inflow before financing</b>                    |       | 391,310                                  | 185,694                                              |
| <b>Financing</b>                                       |       |                                          |                                                      |
| Issue of ordinary share capital                        |       | 868                                      | 34                                                   |
| Share capital purchased and cancelled in year          |       | (50,845)                                 | (33,491)                                             |
| Bank loans received                                    |       | 118,800                                  | 72,604                                               |
| Bank loans repaid                                      |       | (464,541)                                | (222,365)                                            |
|                                                        |       | (395,718)                                | (183,218)                                            |
| <b>(Decrease)/increase in cash</b>                     | 31b   | (4,408)                                  | 2,476                                                |

# Company Balance Sheet as at 31 December 2002

|                                                                | Notes | £000      | 2002<br>£000 | 2001<br>£000 |
|----------------------------------------------------------------|-------|-----------|--------------|--------------|
| <b>Fixed assets</b>                                            |       |           |              |              |
| Other investments                                              | 16    |           | 121,596      | 108,768      |
| <b>Current assets</b>                                          |       |           |              |              |
| Property assets                                                | 19    | –         | 2,775        |              |
| Debtors:                                                       |       |           |              |              |
| amounts falling due after more than one year                   | 20    | 13,500    | 197,050      |              |
| amounts falling due within one year                            | 20    | 249,220   | 426,293      |              |
| Cash at bank and in hand                                       |       | 348       | 5,902        |              |
|                                                                |       | 263,068   | 632,020      |              |
| <b>Creditors: amounts falling due within one year</b>          | 22    | (116,745) | (35,189)     |              |
| Net current assets                                             |       |           | 146,323      | 596,831      |
| <b>Total assets less current liabilities</b>                   |       |           | 267,919      | 705,599      |
| <b>Creditors: amounts falling due after more than one year</b> |       |           |              |              |
| (including convertible unsecured loan stock)                   | 23    |           | (50,401)     | (449,181)    |
| <b>Net assets</b>                                              |       |           | 217,518      | 256,418      |
| <b>Capital and reserves</b>                                    |       |           |              |              |
| Called up share capital                                        | 27    |           | 6,175        | 7,886        |
| Share premium account                                          | 28    |           | 162,812      | 161,987      |
| Other reserves                                                 | 28    |           | 4,289        | 2,535        |
| Profit and loss account                                        | 28    |           | 44,242       | 84,010       |
| <b>Equity shareholders' funds</b>                              |       |           | 217,518      | 256,418      |

The financial statements were approved by the Board of Directors and signed on their behalf on 11 April 2003 by:

M. Barber

W. Sunnucks



# Notes to the Financial Statements for the period ended 31 December 2002

## 1. Accounting policies

The financial statements have been prepared for the 53 week period ending 31 December 2002 (52 week period ending 25 December 2001). The change in the period end has not had a material impact on the financial information presented. Certain comparatives have been reclassified to be consistent with presentation in the current period.

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 using the following principal accounting policies, which have been applied consistently:

**Basis of consolidation** The consolidated financial statements incorporate the financial statements of Capital & Regional plc, its consolidated entities, associated companies and joint ventures for the period ended 31 December 2002. 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 period are included from the date of acquisition. Goodwill on consolidation represents the difference between the purchase consideration and the fair value of net assets acquired and is capitalised in the year in which it arises and is amortised over its useful economic life.

**Turnover** The turnover of the Group comprises rental income from wholly owned properties, income from the snow slope business and management and performance fees generated from the Group's role as a property manager. Performance fees are accumulated over a three year period, so estimates of performance fees receivable made in one year may be subject to adjustment in future year.

**Joint ventures and associates** In accordance with Financial Reporting Standard No. 9, entities that are jointly controlled by virtue of deadlock arrangements are treated as joint ventures and are included in the accounts under the gross equity method of accounting. Associates are included under the net equity method. Where necessary the financial statements of associates and joint ventures are adjusted to conform with the Group's accounting policies.

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

|                       |                                                       |
|-----------------------|-------------------------------------------------------|
| Buildings             | – over 50 years, on a straight line basis.            |
| Fixtures and fittings | – over three to five years, on a straight line basis. |
| Motor vehicles        | – over four years, on a straight line basis.          |

**Investment properties** Investment properties are included in the financial statements at valuation less any unamortised capital contributions made to tenants. 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.

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.

**Investments** Investments are carried at cost less any provision for impairment.

**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.

## 1. Accounting policies (continued)

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

**Tenant incentives** Rent frees given to tenants have been credited to the profit and loss account and amortised over the earlier of either the period of the lease, or, to when the rent is adjusted to the prevailing market rate, usually the first rent review.

Capital contributions given to tenants are shown as a debtor, and amortised over the earlier of either the period of the lease, or, to when the rent is adjusted to the prevailing market rate, usually the first rent review.

Valuation of the properties, at the balance sheet date, is reduced by the unamortised capital contributions.

On the disposal of properties, the unamortised rent incentives are charged against rental income and the balance of the unamortised capital contributions is charged to the disposal of investment properties.

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

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

**Deferred taxation** Deferred tax is provided in accordance with FRS 19 ("Deferred Tax") on all timing differences which have originated but not reversed at the balance sheet date. Deferred tax is measured on a non-discounted basis. The Group previously only provided for deferred tax to the extent that liabilities or assets were expected to reverse in the foreseeable future.

On disposal of a property, any provision for deferred tax no longer required will be released to the profit and loss account.

Deferred tax is not provided on revaluation gains unless by the balance sheet date there is a binding agreement to sell the assets, and the gain or loss arising on sale has been recognised in the financial statements.

The comparative figures for the year ended 25 December 2001 have been restated to comply with FRS 19. The effect of this restatement, together with the impact on the current period's results are summarised below:

|                                            | Period to<br>31 December<br>2002<br>£000 | Year to<br>25 December<br>2001<br>£000 |
|--------------------------------------------|------------------------------------------|----------------------------------------|
| <b>Profit and loss account</b>             |                                          |                                        |
| Increase/(decrease) in deferred tax charge | 527                                      | (8,572)                                |
| <b>Balance sheet</b>                       |                                          |                                        |
| Reduction in net assets                    | 2,397                                    | 1,870                                  |

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

**Long term incentive plan** For share schemes that contingently award shares at no cost to the participant, a charge is recognised systematically in the profit and loss account based on the directors' estimate of the extent the related performance criteria will be met.

**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

|                                                         | Asset<br>management<br>£000 | Snow slope<br>business<br>£000 | Share of joint<br>ventures and<br>associates<br>£000 | Wholly<br>owned<br>properties<br>£000 | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|---------------------------------------------------------|-----------------------------|--------------------------------|------------------------------------------------------|---------------------------------------|------------------------------------------|------------------------------------------------------|
| Asset management fees                                   | 7,262                       |                                |                                                      |                                       | 7,262                                    | 1,509                                                |
| Performance fees                                        | 2,781                       |                                |                                                      |                                       | 2,781                                    | -                                                    |
| Snow slope income                                       |                             | 4,044                          |                                                      |                                       | 4,044                                    | 3,522                                                |
| Rental and other income                                 |                             |                                |                                                      | 12,123                                | 12,123                                   | 57,084                                               |
| <b>Group turnover</b>                                   | 10,043                      | 4,044                          |                                                      | 12,123                                | 26,210                                   | 62,115                                               |
| Share of joint ventures and associates operating profit |                             |                                | 27,298                                               |                                       | 27,298                                   | 3,068                                                |
| Direct expenses                                         |                             | (3,777)                        |                                                      | (1,986)                               | (5,763)                                  | (11,485)                                             |
| Net interest payable                                    |                             |                                |                                                      |                                       |                                          |                                                      |
| non recourse                                            |                             |                                | (14,956)                                             |                                       | (14,956)                                 | (2,447)                                              |
| own borrowings (net)                                    |                             |                                | (3,465)                                              | (6,603)                               | (10,068)                                 | (31,946)                                             |
| <b>Contribution</b>                                     | 10,043                      | 267                            | 8,877                                                | 3,534                                 | 22,721                                   | 19,305                                               |
| Indirect expenses                                       |                             |                                |                                                      |                                       | (14,261)                                 | (9,564)                                              |
| Profit on disposals (net)                               |                             |                                |                                                      |                                       | 2,319                                    | 1,622                                                |
| <b>Profit before exceptionals</b>                       |                             |                                |                                                      |                                       | 10,779                                   | 11,363                                               |
| Exceptional items (see note 4)                          |                             |                                |                                                      |                                       | (8,706)                                  | -                                                    |
| <b>Profit before taxation</b>                           |                             |                                |                                                      |                                       | 2,073                                    | 11,363                                               |
| <b>Net assets</b>                                       | 5,781                       | 253                            | 245,056                                              | 18,913                                | 270,003                                  | 287,241                                              |

Turnover, profit on ordinary activities before taxation and net assets all arise in the UK with the exception of a £1,522,000 write off of development properties (see note 4) which relates to continental Europe. (2001: £nil)

## 3. Asset sales

|                                                             | Period to<br>31 December<br>2002<br>£000 | Fixed assets<br>Year to<br>25 December<br>2001<br>£000 | Period to<br>31 December<br>2002<br>£000 | Current assets<br>Year to<br>25 December<br>2001<br>£000 | Total<br>Period to<br>31 December<br>2002<br>£000 | Total<br>Year to<br>25 December<br>2001<br>£000 |
|-------------------------------------------------------------|------------------------------------------|--------------------------------------------------------|------------------------------------------|----------------------------------------------------------|---------------------------------------------------|-------------------------------------------------|
| Net sale proceeds                                           | 655,442                                  | 216,029                                                | 34,229                                   | 8,047                                                    | 689,671                                           | 224,076                                         |
| Cost of sales                                               | (618,431)                                | (192,433)                                              | (35,252)                                 | (7,864)                                                  | (653,683)                                         | (200,297)                                       |
| Historical cost profit/(loss)                               | 37,011                                   | 23,596                                                 | (1,023)                                  | 183                                                      | 35,988                                            | 23,779                                          |
| Revaluation surplus                                         | (39,061)                                 | (22,157)                                               | -                                        | -                                                        | (39,061)                                          | (22,157)                                        |
| (Loss)/profit on disposal                                   | (2,050)                                  | 1,439                                                  | (1,023)                                  | 183                                                      | (3,073)                                           | 1,622                                           |
| Profit on disposal of investment                            | 1,261                                    | -                                                      | -                                        | -                                                        | 1,261                                             | -                                               |
|                                                             | (789)                                    | 1,439                                                  | (1,023)                                  | 183                                                      | (1,812)                                           | 1,622                                           |
| Share of associates and joint ventures (see note 17 and 18) | 2,609                                    | -                                                      | -                                        | -                                                        | 2,609                                             | -                                               |
| <b>Profit/(loss) recognised on sale of assets</b>           | 1,820                                    | 1,439                                                  | (1,023)                                  | 183                                                      | 797                                               | 1,622                                           |

#### 4. Profit before tax and exceptional items

|                                                                  | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| Exceptional loss on write off of European development properties | 1,522                                    | –                                                    |
| Exceptional costs of a fundamental reorganisation                |                                          |                                                      |
| Loan breakage costs                                              | 3,949                                    | –                                                    |
| Transaction costs                                                | 2,150                                    | –                                                    |
| Group reorganisation costs                                       | 1,085                                    | –                                                    |
|                                                                  | 7,184                                    | –                                                    |
| Total exceptional costs                                          | 8,706                                    | –                                                    |
| Profit before tax                                                | 2,073                                    | 11,363                                               |
| Profit before tax and exceptional items                          | 10,779                                   | 11,363                                               |

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

#### 5. Interest receivable and similar income

|                                             | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|---------------------------------------------|------------------------------------------|------------------------------------------------------|
| Bank interest                               | 342                                      | 506                                                  |
| Interest from joint ventures and associates | 132                                      | 372                                                  |
| Other interest                              | 106                                      | 646                                                  |
|                                             | 580                                      | 1,524                                                |
| Share of joint ventures and associates      | 463                                      | 63                                                   |
| Total                                       | 1,043                                    | 1,587                                                |

#### 6. Interest payable and similar charges

|                                                              | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|--------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| Bank loans and overdrafts wholly repayable within five years | 9,498                                    | 31,985                                               |
| Other loans                                                  | 1,684                                    | 1,663                                                |
|                                                              | 11,182                                   | 33,648                                               |
| Capitalised during period/year                               | (533)                                    | (115)                                                |
|                                                              | 10,649                                   | 33,533                                               |
| Share of joint ventures                                      | 2,967                                    | 2,447                                                |
| Share of associates                                          | 12,451                                   | –                                                    |
|                                                              | 26,067                                   | 35,980                                               |

The interest charge includes £378,000 (2001: £384,000) of loan arrangement costs amortised during the period.



## 7. Profit on ordinary activities before taxation

|                                                                                                                    | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| This is arrived at after charging/(crediting):                                                                     |                                          |                                                      |
| Profit on disposal of other fixed assets                                                                           | (6)                                      | (74)                                                 |
| Depreciation                                                                                                       | 482                                      | 486                                                  |
| Amortisation of short leasehold properties                                                                         | 203                                      | 202                                                  |
| Amortisation of negative goodwill                                                                                  | (90)                                     | -                                                    |
| Auditors' remuneration (see below)                                                                                 | 148                                      | 134                                                  |
| Operating lease rentals for land and buildings                                                                     | 543                                      | 1,141                                                |
| Surrender premiums received                                                                                        | -                                        | (477)                                                |
| The Group's auditors also charged the following amounts for the provision of non-audit services during the period: |                                          |                                                      |
| General taxation advice                                                                                            | 83                                       | 128                                                  |
| Other                                                                                                              | 372                                      | 22                                                   |
|                                                                                                                    | <b>455</b>                               | <b>150</b>                                           |

Other fees paid to auditors relate mainly to services provided as reporting accountants during the Group's reorganisation in the period.

The auditors' remuneration for the Group includes £8,000 (2001: £8,000) in respect of the parent company.

Operating lease commitments for land and buildings (all expiring in more than five years) are £80,000 (25 December 2001: £1,122,000).

## 8. Employee information

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

|                          | Average number<br>of employees<br>during<br>2002 | Average number<br>of employees<br>during<br>2001 |
|--------------------------|--------------------------------------------------|--------------------------------------------------|
| Direct property services | 4                                                | 13                                               |
| Snow slope business      | 100                                              | 128                                              |
| Central management       | 88                                               | 87                                               |
|                          | <b>192</b>                                       | <b>228</b>                                       |

In addition 134 people were employed at the shopping centres (2001: 106). Their costs are recharged directly to tenants and excluded from the figures above.

|                                               | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|-----------------------------------------------|------------------------------------------|------------------------------------------------------|
| Staff costs (including directors) consist of: |                                          |                                                      |
| Wages and salaries                            | 6,654                                    | 6,040                                                |
| Discretionary bonuses                         | 2,407                                    | 1,277                                                |
| Total salaries                                | 9,061                                    | 7,317                                                |
| Social security costs                         | 1,012                                    | 742                                                  |
| Other pension costs                           | 197                                      | 237                                                  |
|                                               | <b>10,270</b>                            | <b>8,296</b>                                         |

## 9. Directors' remuneration

Details of directors' remuneration by director and details of their interests in the share capital of the Company are set out in the Directors' Remuneration report on pages 13 to 18.

## 10. Taxation

|                                                                        | Period to<br>31 December<br>2002<br>£000 | (Restated)<br>Year to<br>25 December<br>2001<br>£000 |
|------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| Current tax                                                            |                                          |                                                      |
| UK corporation tax (at 30%)                                            | 580                                      | 1,335                                                |
| Tax credit in respect of exceptional items                             | (1,510)                                  | –                                                    |
| Adjustment in respect of prior years                                   | (274)                                    | (1,135)                                              |
| Share of joint ventures tax                                            | 177                                      | 227                                                  |
| Total current tax                                                      | (1,027)                                  | 427                                                  |
| Deferred tax                                                           |                                          |                                                      |
| Origination and reversal of timing differences                         | 2,247                                    | (8,572)                                              |
| Total taxation                                                         | 1,220                                    | (8,145)                                              |
| Tax reconciliation                                                     |                                          |                                                      |
| Group profit on ordinary activities                                    | 2,073                                    | 11,363                                               |
| Tax on profit on ordinary activities at UK corporation tax rate of 30% | 622                                      | 3,409                                                |
| Effects of:                                                            |                                          |                                                      |
| Capital allowances                                                     | (2,776)                                  | (2,469)                                              |
| Tax losses and other timing differences                                | (503)                                    | –                                                    |
| Expenses not deductible for tax purposes                               | 1,904                                    | 622                                                  |
| Adjustment in respect of prior years                                   | (274)                                    | (1,135)                                              |
| Total current tax                                                      | (1,027)                                  | 427                                                  |

**Taxation recognised in the STRGL (see page 23)** The tax on revaluation surplus recognised of £3,556,000 is in respect of capital gains on dilution of the Group's interest in the Junction Fund and gains arising in respect of prior year revaluations realised on disposals to third parties.

### Factors affecting future tax rate

The Group expects to be able to claim capital allowances in future periods in excess of depreciation but at a lower level than in the current period.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. The total amount unprovided is £13,996,000 (2001: £8,815,000).

## 11. Profit of the holding company

Of the profit for the period attributable to shareholders, a profit of £15,410,000 (2001: £4,848,000) has been dealt within the accounts of the holding company and is made up as follows:

|                                                | Period to<br>31 December<br>2002<br>£000 | Year to<br>25 December<br>2001<br>£000 |
|------------------------------------------------|------------------------------------------|----------------------------------------|
| Dividends from subsidiaries                    | 29,556                                   | 57,708                                 |
| Net operating costs including interest and tax | (14,146)                                 | (52,860)                               |
|                                                | 15,410                                   | 4,848                                  |

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.

## 12. Equity dividends paid and payable

|                                                                               | Period to<br>31 December<br>2002<br>£000 | Year to<br>25 December<br>2001<br>£000 |
|-------------------------------------------------------------------------------|------------------------------------------|----------------------------------------|
| Interim of 3p per share paid on 18 October 2002 (2001: 2.5p per share)        | 1,863                                    | 1,971                                  |
| Proposed final of 4p per share payable on 16 June 2003 (2001: 3.5p per share) | 2,470                                    | 2,760                                  |
|                                                                               | <b>4,333</b>                             | <b>4,731</b>                           |

## 13. Earnings per share

(a) Earnings per share have been calculated on the weighted average number of Ordinary shares of 10p each in issue during the period 67,339,312 (2001: 82,272,918) and have been based on profit on ordinary activities after taxation and minority interests of £845,000 (2001 (restated): £19,758,000).

(b) Diluted earnings per share have been calculated after allowing for the exercise of share options which have met the required exercise conditions. The calculation includes conversion of the Convertible Unsecured Loan Stock where the effect on earnings per share is dilutive. In 2002 the effect of the Convertible Unsecured Loan Stock was not dilutive (2001: dilutive). The weighted average number of Ordinary shares of 10p each is 67,947,236 (2001: 95,025,530) and the relevant earnings are £845,000 (2001 (restated): £21,446,000).

## 14. Property assets

|                                                | Investment properties          |                                 |               |
|------------------------------------------------|--------------------------------|---------------------------------|---------------|
|                                                | Freehold<br>properties<br>£000 | Leasehold<br>properties<br>£000 | Total<br>£000 |
| <b>Group</b>                                   |                                |                                 |               |
| Cost or valuation:                             |                                |                                 |               |
| As at 26 December 2001                         | 394,540                        | 315,115                         | 709,655       |
| Unamortised capital contribution               | (4,567)                        | (1,750)                         | (6,317)       |
|                                                | 389,973                        | 313,365                         | 703,338       |
| Additions                                      | 1,200                          | (227)                           | 973           |
| Amortisation of short leasehold properties     | —                              | (203)                           | (203)         |
| Disposals                                      | (352,720)                      | (296,422)                       | (649,142)     |
| Revaluation                                    | 727                            | (218)                           | 509           |
| <b>As at 31 December 2002</b>                  | <b>39,180</b>                  | <b>16,295</b>                   | <b>55,475</b> |
| The period end balance is analysed as follows: |                                |                                 |               |
| Historical cost                                | 36,848                         | 16,215                          | 53,063        |
| Revaluation surplus                            | 2,332                          | 80                              | 2,412         |

A list of the valuers, and the basis of the valuations, are summarised in note 30.

|                                                                         | 2002<br>£000  |
|-------------------------------------------------------------------------|---------------|
| The period end balance for leasehold properties is analysed as follows: |               |
| Leasehold with more than 50 years to run                                | 10,805        |
| Leasehold with between 20 and 50 years to run                           | 1,900         |
| Leasehold with less than 20 years to run                                | 3,590         |
|                                                                         | <b>16,295</b> |

The net book value of property assets includes £206,000 (2001: £3,065,000) in respect of capitalised interest.

## 15. Other fixed assets

|                               | Long leasehold<br>land and buildings<br>£000 | Fixtures<br>and fittings<br>£000 | Motor<br>vehicles<br>£000 | Negative<br>goodwill | Total<br>£000 |
|-------------------------------|----------------------------------------------|----------------------------------|---------------------------|----------------------|---------------|
| <b>Group</b>                  |                                              |                                  |                           |                      |               |
| Cost or valuation             |                                              |                                  |                           |                      |               |
| As at 26 December 2001        | 13,660                                       | 1,880                            | 89                        | (223)                | 15,406        |
| Additions                     | –                                            | 280                              | –                         | –                    | 280           |
| Disposals                     | –                                            | (333)                            | (57)                      | –                    | (390)         |
| Revaluation                   | (920)                                        | –                                | –                         | –                    | (920)         |
| <b>As at 31 December 2002</b> | <b>12,740</b>                                | <b>1,827</b>                     | <b>32</b>                 | <b>(223)</b>         | <b>14,376</b> |
| Depreciation                  |                                              |                                  |                           |                      |               |
| As at 26 December 2001        | 160                                          | 1,213                            | 71                        | (4)                  | 1,440         |
| Provided for period           | 80                                           | 394                              | 8                         | (90)                 | 392           |
| Disposals                     | –                                            | (333)                            | (57)                      | –                    | (390)         |
| <b>As at 31 December 2002</b> | <b>240</b>                                   | <b>1,274</b>                     | <b>22</b>                 | <b>(94)</b>          | <b>1,442</b>  |
| Net book values:              |                                              |                                  |                           |                      |               |
| <b>As at 31 December 2002</b> | <b>12,500</b>                                | <b>553</b>                       | <b>10</b>                 | <b>(129)</b>         | <b>12,934</b> |
| As at 26 December 2001        | 13,500                                       | 667                              | 18                        | (219)                | 13,966        |

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

The long leasehold land and buildings represents the Group's head office, which was independently valued at 31 December 2002. A list of the valuers, and the basis of the valuations, are summarised in note 30.

The historical cost of the long leasehold land and buildings is £13,620,000 and the revaluation deficit is £1,120,000.

## 16. Other investments

|                                    | Company<br>Shares in subsidiary and<br>joint venture undertakings<br>£000 |
|------------------------------------|---------------------------------------------------------------------------|
| Cost                               |                                                                           |
| As at 26 December 2001             | 108,768                                                                   |
| Additions                          | 17,622                                                                    |
| Disposals                          | (2)                                                                       |
| Write down in value of investments | (4,792)                                                                   |
| <b>As at 31 December 2002</b>      | <b>121,596</b>                                                            |

A list of principal subsidiaries and joint venture undertakings is given in note 34.

## 17. Associates

|                                                          | 2002<br>£000   |
|----------------------------------------------------------|----------------|
| As at 26 December 2001                                   | -              |
| Subscription for partnership capital and advances        | 250,050        |
| Dividends and capital distributions received             | (11,946)       |
| Share of results (see below)                             | 11,993         |
| Share of property revaluation surplus (see below)        | 34,315         |
| Unrealised profit on disposals to associates (see below) | (422)          |
| Unrealised gain on deemed disposal                       | 2,377          |
| <b>As at 31 December 2002</b>                            | <b>286,367</b> |

### Analysis of investment in associates:

|                                                    | The Mall<br>Partnership<br>£000 | The Junction<br>Partnership<br>£000 | Total to<br>31 December<br>2002<br>£000 | Total to<br>25 December<br>2001<br>£000 |
|----------------------------------------------------|---------------------------------|-------------------------------------|-----------------------------------------|-----------------------------------------|
| <b>Profit and loss account (100%)</b>              |                                 |                                     |                                         |                                         |
| Turnover                                           | 51,999                          | 23,143                              | 75,142                                  | -                                       |
| Net rental income                                  | 42,942                          | 22,073                              | 65,015                                  | -                                       |
| Operating profit                                   | 33,955                          | 17,888                              | 51,843                                  | -                                       |
| Sale of investment properties                      | -                               | 477                                 | 477                                     | -                                       |
| Net interest payable                               | (15,600)                        | (10,722)                            | (26,322)                                | -                                       |
| Profit before and after tax                        | 18,355                          | 7,643                               | 25,998                                  | -                                       |
| <b>Balance sheet (100%)</b>                        |                                 |                                     |                                         |                                         |
| Investment properties                              | 724,386                         | 535,632                             | 1,260,018                               | -                                       |
| Current assets                                     | 35,480                          | 19,111                              | 54,591                                  | -                                       |
| Current liabilities                                | (32,757)                        | (17,835)                            | (50,592)                                | -                                       |
| Borrowing due in more than one year                | (328,667)                       | (211,181)                           | (539,848)                               | -                                       |
| <b>Net assets (100%)</b>                           | <b>398,442</b>                  | <b>325,727</b>                      | <b>724,169</b>                          | -                                       |
| <b>Group</b>                                       |                                 |                                     |                                         |                                         |
| Interest at period end                             | 49.39%                          | 27.63%                              |                                         | -                                       |
| <b>Group share of</b>                              |                                 |                                     |                                         |                                         |
| Operating profit                                   | 16,927                          | 6,967                               | 23,894                                  | -                                       |
| Sale of investment properties                      | -                               | 174                                 | 174                                     | -                                       |
| Net interest payable                               | (7,770)                         | (4,305)                             | (12,075)                                | -                                       |
| Profit for the period                              | 9,157                           | 2,836                               | 11,993                                  | -                                       |
| Revaluation surplus for the period                 | 26,641                          | 7,674                               | 34,315                                  | -                                       |
| Investment properties                              | 357,774                         | 147,995                             | 505,769                                 | -                                       |
| Current assets                                     | 17,524                          | 5,280                               | 22,804                                  | -                                       |
| Current liabilities                                | (16,178)                        | (4,928)                             | (21,106)                                | -                                       |
| Borrowing due in more than one year                | (162,329)                       | (58,349)                            | (220,678)                               | -                                       |
| Associate net assets                               | 196,791                         | 89,998                              | 286,789                                 | -                                       |
| Unrealised profit on sale of property to associate | (422)                           | -                                   | (422)                                   | -                                       |
| Group share of associate net assets                | 196,369                         | 89,998                              | 286,367                                 | -                                       |

The associates both operate in the UK.

# 18. Investment in joint ventures

|                                                             | 2002<br>£000  | 2001<br>£000  |
|-------------------------------------------------------------|---------------|---------------|
| As at 26 December 2001 (2001 adjusted for UITF28)           | 29,483        | 29,814        |
| Subscription for partnership capital and advances           | 12,153        | 650           |
| Dividends and capital distributions received                | (3,312)       | (928)         |
| Share of results (see below)                                | 2,960         | 703           |
| Share of taxation and minority interests (see below)        | (185)         | (227)         |
| Share of property revaluation surplus/(deficit) (see below) | 3,987         | (529)         |
| Disposal of investment                                      | (20,397)      | –             |
| <b>As at 31 December 2002</b>                               | <b>24,689</b> | <b>29,483</b> |

## Analysis of investment in joint ventures:

|                                              | Xscape<br>Milton Keynes<br>Partnership<br>£000 | Xscape<br>Castleford<br>Partnership<br>£000 | Auchinlea<br>Partnership<br>£000 | Others<br>£000 | Total to<br>31 December<br>2002<br>£000 | Total to<br>25 December<br>2001<br>£000 |
|----------------------------------------------|------------------------------------------------|---------------------------------------------|----------------------------------|----------------|-----------------------------------------|-----------------------------------------|
| <b>Profit and loss account (100%)</b>        |                                                |                                             |                                  |                |                                         |                                         |
| Turnover                                     | 3,493                                          | –                                           | 804                              | 13,280         | 17,577                                  | 31,241                                  |
| Net rental income                            | 2,614                                          | –                                           | 662                              | 2,921          | 6,197                                   | 6,277                                   |
| Operating profit/(loss)                      | 2,614                                          | (53)                                        | 644                              | 3,625          | 6,830                                   | 6,136                                   |
| Sale of investment properties                | –                                              | –                                           | –                                | 4,871          | 4,871                                   | –                                       |
| Net interest payable                         | (3,287)                                        | –                                           | (602)                            | (1,872)        | (5,761)                                 | (4,766)                                 |
| (Loss)/profit before tax                     | (673)                                          | (53)                                        | 42                               | 6,624          | 5,940                                   | 1,370                                   |
| Taxation and minority interests              | –                                              | –                                           | –                                | (370)          | (370)                                   | (415)                                   |
| (Loss)/profit after tax                      | (673)                                          | (53)                                        | 42                               | 6,254          | 5,570                                   | 955                                     |
| <b>Balance sheet (100%)</b>                  |                                                |                                             |                                  |                |                                         |                                         |
| Investment properties                        | 73,050                                         | 30,940                                      | 29,350                           | –              | 133,340                                 | 155,162                                 |
| Current assets                               | 6,138                                          | 1,336                                       | 1,298                            | 2,545          | 11,317                                  | 27,832                                  |
| Current liabilities                          | (3,045)                                        | (4,078)                                     | (529)                            | (1,447)        | (9,099)                                 | (25,098)                                |
| Borrowing due in more than one year          | (46,800)                                       | (19,650)                                    | (11,000)                         | –              | (77,450)                                | (87,902)                                |
| <b>Net assets (100%)</b>                     | <b>29,343</b>                                  | <b>8,548</b>                                | <b>19,119</b>                    | <b>1,098</b>   | <b>58,108</b>                           | <b>69,994</b>                           |
| <b>Group</b>                                 |                                                |                                             |                                  |                |                                         |                                         |
| Interest at period end                       | 50.0%                                          | 66.7%                                       | 50.0%                            | –              | –                                       | –                                       |
| <b>Group share of</b>                        |                                                |                                             |                                  |                |                                         |                                         |
| Turnover                                     | 1,747                                          | –                                           | 402                              | 6,639          | 8,788                                   | 15,620                                  |
| Operating profit/(loss)                      | 1,307                                          | (35)                                        | 322                              | 1,810          | 3,404                                   | 3,068                                   |
| Sale of investment properties                | –                                              | –                                           | –                                | 2,435          | 2,435                                   | –                                       |
| Net interest payable                         | (1,643)                                        | –                                           | (301)                            | (935)          | (2,879)                                 | (2,384)                                 |
| (Loss)/profit before tax                     | (336)                                          | (35)                                        | 21                               | 3,310          | 2,960                                   | 684                                     |
| Taxation and minority interests              | –                                              | –                                           | –                                | (185)          | (185)                                   | (208)                                   |
| (Loss)/profit after tax                      | (336)                                          | (35)                                        | 21                               | 3,125          | 2,775                                   | 476                                     |
| Revaluation surplus/(deficit) for the period | 48                                             | –                                           | 3,939                            | –              | 3,987                                   | (529)                                   |
| Investment properties                        | 36,525                                         | 20,628                                      | 14,675                           | –              | 71,828                                  | 77,581                                  |
| Current assets                               | 3,069                                          | 891                                         | 649                              | 1,423          | 6,031                                   | 13,916                                  |
| Current liabilities                          | (7,459)                                        | (2,719)                                     | (265)                            | (727)          | (11,169)                                | (13,088)                                |
| Borrowing more than one year                 | (23,400)                                       | (13,101)                                    | (5,500)                          | –              | (42,001)                                | (48,926)                                |
| <b>Joint venture net assets</b>              | <b>8,735</b>                                   | <b>5,699</b>                                | <b>9,559</b>                     | <b>696</b>     | <b>24,689</b>                           | <b>29,483</b>                           |

A list of valuers and the basis of the valuation are summarised in note 30.

The joint ventures all operate in the UK.

The year end of the Auchinlea Partnership is 31 March.

## 19. Current property assets

|                              | Group        |              | Company      |              |
|------------------------------|--------------|--------------|--------------|--------------|
|                              | 2002<br>£000 | 2001<br>£000 | 2002<br>£000 | 2001<br>£000 |
| Properties held for disposal | 7,726        | 13,859       | -            | -            |
| Properties under development | 47           | 14,267       | -            | 2,775        |
|                              | 7,773        | 28,126       | -            | 2,775        |

The net book value of current property assets includes £295,000 (2001: £290,000) in respect of capitalised interest.

## 20. Debtors

|                                                     | Group        |              | Company      |              |
|-----------------------------------------------------|--------------|--------------|--------------|--------------|
|                                                     | 2002<br>£000 | 2001<br>£000 | 2002<br>£000 | 2001<br>£000 |
| <b>Amounts falling due after more than one year</b> |              |              |              |              |
| Amounts owed by subsidiaries                        | -            | -            | 13,500       | 197,050      |
| Amounts owed by joint ventures                      | -            | 2,750        | -            | -            |
| Prepayments                                         | 84           | 5,557        | -            | -            |
|                                                     | 84           | 8,307        | 13,500       | 197,050      |
| <b>Amounts falling due within one year</b>          |              |              |              |              |
| Trade debtors                                       | 3,079        | 16,589       | -            | -            |
| Amounts owed by subsidiaries                        | -            | -            | 247,437      | 421,635      |
| Amounts owed by joint ventures                      | 42           | 4,549        | -            | 4,549        |
| Amounts owed by associates                          | 17,385       | -            | -            | -            |
| Other debtors                                       | 3,228        | 1,480        | -            | 107          |
| Tax recoverable                                     | 645          | 769          | -            | -            |
| Prepayments and accrued income                      | 2,862        | 4,538        | 1,783        | 2            |
|                                                     | 27,241       | 27,925       | 249,220      | 426,293      |

## 21. Cash at bank and in hand

Cash at bank includes £166,000 (2001: £5,679,000) specifically held as security deposits and retained in rent accounts and not freely available to the Group for day to day commercial purposes.

**22. Creditors: amounts falling due within one year**

|                              | Group         |               | Company        |               |
|------------------------------|---------------|---------------|----------------|---------------|
|                              | 2002<br>£000  | 2001<br>£000  | 2002<br>£000   | 2001<br>£000  |
| Bank loans (secured)         | 3,285         | 3,300         | 94             | 12            |
| Amounts owed to subsidiaries | –             | –             | 113,825        | 27,424        |
| Trade creditors              | 1,167         | 4,631         | –              | 9             |
| Other creditors              | 3,322         | 2,384         | 30             | 31            |
| Taxation and social security | 1,010         | 3,085         | 77             | –             |
| Corporation tax              | 2,906         | 7,952         | –              | –             |
| Accruals and deferred income | 15,121        | 46,543        | 249            | 4,953         |
| Proposed dividends           | 2,470         | 2,760         | 2,470          | 2,760         |
|                              | <b>29,281</b> | <b>70,655</b> | <b>116,745</b> | <b>35,189</b> |

**23. Creditors: amounts falling due after more than one year**

|                                                  | Group          |                | Company       |                |
|--------------------------------------------------|----------------|----------------|---------------|----------------|
|                                                  | 2002<br>£000   | 2001<br>£000   | 2002<br>£000  | 2001<br>£000   |
| Bank loans (secured) (see note 25)               | 92,000         | 437,650        | 26,000        | 424,900        |
| Unamortised issue costs                          | (241)          | (148)          | (4)           | (33)           |
|                                                  | <b>91,759</b>  | <b>437,502</b> | <b>25,996</b> | <b>424,867</b> |
| Convertible loan stock (unsecured) (see note 24) | 24,642         | 24,642         | 24,642        | 24,642         |
| Unamortised issue costs                          | (237)          | (328)          | (237)         | (328)          |
|                                                  | <b>24,405</b>  | <b>24,314</b>  | <b>24,405</b> | <b>24,314</b>  |
| Other creditors                                  | 877            | –              | –             | –              |
|                                                  | <b>117,041</b> | <b>461,816</b> | <b>50,401</b> | <b>449,181</b> |

**24. Convertible Subordinated Unsecured Loan Stock**

|                                                  | Group and Company |               |
|--------------------------------------------------|-------------------|---------------|
|                                                  | 2002<br>£000      | 2001<br>£000  |
| Convertible Subordinated Unsecured Loan Stock    | 24,642            | 24,642        |
| Unamortised loan issue costs due after one year  | (237)             | (328)         |
|                                                  | <b>24,405</b>     | <b>24,314</b> |
| Unamortised loan issue costs due within one year | (91)              | (91)          |
|                                                  | <b>24,314</b>     | <b>24,223</b> |

The Convertible Subordinated Unsecured Loan Stock ("CULS") may be converted by the holders of the stock into 51.42 (2001: 50.37) Ordinary shares per £100 nominal value CULS in any of the years 1997 to 2015 inclusive, representing a conversion price of 194p (2001: 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 unamortised loan issue costs.



## 25. Financial Instruments

The Group's interest rate profile is as follows:

|                     | Total<br>£000 | Weighted<br>average<br>interest rate | Weighted<br>average<br>period – years |
|---------------------|---------------|--------------------------------------|---------------------------------------|
| Fixed loans         | 24,642        | 6.75%                                | 13.3                                  |
| Variable rate loans | 95,450        | 5.12%                                | n/a                                   |
|                     | 120,092       | 5.45%                                |                                       |

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

A valuation was carried out by JC Rathbone Associates Limited as at 31 December 2002 and 25 December 2001 to calculate the market value of the fixed rate instruments on a replacement basis and the expiry profile of the resulting fair value adjustment. There is no difference between the book value and fair value of the Group's fixed rate debt. The table below shows the difference between the book value and notional value of the Group's share of fixed rate debt within associates and joint ventures.

|                               | Book<br>value<br>£000 | Notional<br>value<br>£000 | Fair value<br>adjustment<br>2002<br>£000 | Fair value<br>adjustment<br>2001<br>£000 |
|-------------------------------|-----------------------|---------------------------|------------------------------------------|------------------------------------------|
| Interest rate swaps           | 255,237               | 261,814                   | (6,577)                                  | –                                        |
| Net of tax at 30% (2001: 30%) |                       |                           | (4,604)                                  | –                                        |

The fair value adjustment has a notional adverse effect on fully diluted net asset value per share of 6.0p (2001: 2.7p).

The Group's interest rate policy is to enter into interest rate swaps where appropriate which provides protection against any sudden rise in interest rates. The balance between borrowing on floating and hedged interest rates is continually reviewed in the light of market conditions and business requirements.

Interest rate swaps and bank fixed rates were valued on a replacement basis. They were valued against the offered side of the zero coupon yield curve commencing on 31 December 2002 and ended on the contracted expiry dates.

The bank loans are repayable as follows:

|                                            | 2002<br>£000 | 2001<br>£000 |
|--------------------------------------------|--------------|--------------|
| Aggregate amount repayable:                |              |              |
| Between one and two years                  | 9,000        | 277,700      |
| Between two and five years                 | 34,300       | 151,350      |
| Greater than five years                    | 48,700       | 8,600        |
| Total loans due after more than one year   | 92,000       | 437,650      |
| Loans due in one year or less or on demand | 3,450        | 3,540        |
| Total loans                                | 95,450       | 441,190      |

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

## 26. Provision for liabilities and charges

### Deferred taxation

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

|                                                                                | Provided<br>2002<br>£000 | (Restated)<br>Provided<br>2001<br>£000 | Not<br>provided<br>2002<br>£000 | (Restated)<br>Not<br>provided<br>2001<br>£000 |
|--------------------------------------------------------------------------------|--------------------------|----------------------------------------|---------------------------------|-----------------------------------------------|
| Tax on capital gains if investment assets were sold at their current valuation | –                        | –                                      | 13,996                          | 8,815                                         |
| Accelerated capital allowances and other timing differences                    | 2,397                    | –                                      | –                               | –                                             |
|                                                                                | 2,397                    | –                                      | 13,996                          | 8,815                                         |

If a provision was made for deferred taxation that has not been provided it would have an adverse effect on net assets per share of 22.7p (2001: 13.6p) and on fully diluted net assets per share of 18.1p (2001: 9.6p).

## 27. Called up share capital

|                                     | Number of shares<br>issued and fully paid |                   | Nominal value of shares<br>issued and fully paid |              |
|-------------------------------------|-------------------------------------------|-------------------|--------------------------------------------------|--------------|
|                                     | 2002<br>Number                            | 2001<br>Number    | 2002<br>£000                                     | 2001<br>£000 |
| Ordinary shares of 10p each         |                                           |                   |                                                  |              |
| As at 26 December 2001              | 78,855,975                                | 88,734,623        | 7,886                                            | 8,874        |
| Issued on exercise of share options | 434,210                                   | 20,852            | 43                                               | 2            |
| Shares purchased and cancelled      | (17,543,744)                              | (9,899,500)       | (1,754)                                          | (990)        |
| <b>As at 31 December 2002</b>       | <b>61,746,441</b>                         | <b>78,855,975</b> | <b>6,175</b>                                     | <b>7,886</b> |

|                             | Authorised  |             |
|-----------------------------|-------------|-------------|
|                             | 2002        | 2001        |
| Ordinary shares of 10p each | 150,000,000 | 150,000,000 |

After the year end 291,723 share options were exercised. This increased the number of shares issued and fully paid to 62,038,164.

As at 31 December 2002 the Group had purchased 70,000 of its own Ordinary shares at a cost of £219,580. These shares were purchased for the Long Term Incentive Plan as described in the Directors' remuneration report (pages 13 to 18).

The options to subscribe for new Ordinary shares of 10p each under the share option schemes that were outstanding at 31 December 2002 are as follows:

|                                              | 31 December 2002    |                       |
|----------------------------------------------|---------------------|-----------------------|
|                                              | Number<br>of shares | Subscription<br>price |
| Period within which options are exercisable: |                     |                       |
| 22 December 1996 to 22 December 2003         | 410,634             | 168.9p                |
| 28 October 1997 to 28 October 2004           | 312,789             | 131.4p                |
| 21 October 1999 to 21 October 2006           | 20,852              | 193.2p                |
| 18 June 2000 to 18 June 2004                 | 506,835             | 226.4p                |
| 18 June 2000 to 18 June 2007                 | 105,208             | 226.4p                |
| 15 May 2001 to 15 May 2008                   | 924,000             | 279.5p                |
| 22 May 2001 to 22 May 2008                   | 30,940              | 286.5p                |
| 23 February 2002 to 23 February 2009*        | 428,950             | 191.5p                |
| 22 February 2003 to 22 February 2010*        | 95,200              | 201.5p                |
| 13 September 2003 to 13 September 2010*      | 325,000             | 211.5p                |
|                                              | <b>3,160,408</b>    |                       |

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

## 28. Reserves

|                                                                          | Share<br>premium<br>account<br>£000 | Property<br>revaluation<br>reserve<br>£000 | Capital<br>redemption<br>reserve<br>£000 | Profit and<br>loss account<br>£000 |
|--------------------------------------------------------------------------|-------------------------------------|--------------------------------------------|------------------------------------------|------------------------------------|
| <b>Group</b>                                                             |                                     |                                            |                                          |                                    |
| As at 26 December 2001                                                   | 161,927                             | 82,988                                     | 2,535                                    | 33,775                             |
| Prior year adjustment – Deferred Tax                                     | –                                   | –                                          | –                                        | (1,870)                            |
| Revised balance as at 26 December 2001                                   | 161,927                             | 82,988                                     | 2,535                                    | 31,905                             |
| Issue of share capital                                                   | 825                                 | –                                          | –                                        | –                                  |
| Shares purchased and cancelled                                           | –                                   | –                                          | 1,754                                    | (50,845)                           |
| Group share of revaluation deficit of investment properties              | –                                   | (411)                                      | –                                        | –                                  |
| Share of unrealised revaluation surplus in joint ventures and associates | –                                   | 38,302                                     | –                                        | –                                  |
| Realisation of surplus on disposal of investment properties              | –                                   | (47,873)                                   | –                                        | 47,873                             |
| Transfer of historical deficits on revaluation reserve                   | –                                   | 1,000                                      | –                                        | (1,000)                            |
| Corporation tax on capital gains charged to STRGL                        | –                                   | –                                          | –                                        | (4,041)                            |
| Gain on deemed disposal                                                  | –                                   | –                                          | –                                        | 2,377                              |
| Retained loss for the period                                             | –                                   | –                                          | –                                        | (3,488)                            |
| <b>As at 31 December 2002</b>                                            | <b>162,752</b>                      | <b>74,006</b>                              | <b>4,289</b>                             | <b>22,781</b>                      |
| <b>Company</b>                                                           |                                     |                                            |                                          |                                    |
| As at 26 December 2001                                                   | 161,987                             | –                                          | 2,535                                    | 84,010                             |
| Profit for year attributable to shareholders                             | –                                   | –                                          | –                                        | 15,410                             |
| Equity dividends paid and payable                                        | –                                   | –                                          | –                                        | (4,333)                            |
| Issue of share capital                                                   | 825                                 | –                                          | –                                        | –                                  |
| Shares purchased and cancelled                                           | –                                   | –                                          | 1,754                                    | (50,845)                           |
| <b>As at 31 December 2002</b>                                            | <b>162,812</b>                      | <b>–</b>                                   | <b>4,289</b>                             | <b>44,242</b>                      |

## 29. Net assets per share

|                                                                                                          | As at 31 December 2002 |                     |                         |
|----------------------------------------------------------------------------------------------------------|------------------------|---------------------|-------------------------|
|                                                                                                          | Net assets<br>£000     | Number<br>of shares | Net assets<br>per share |
| Consolidated balance sheet                                                                               | 270,003                | 61,746,441          | 437                     |
| Conversion of Convertible Subordinated Unsecured Loan Stock ("CULS")<br>(net of unamortised issue costs) | 24,314                 | 12,670,912          |                         |
| Exercise of share options                                                                                | 6,901                  | 3,160,408           |                         |
| Fully diluted                                                                                            | 301,218                | 77,577,761          | 388                     |

|                                                                                                          | As at 25 December 2001 (Restated) |                     |                         |
|----------------------------------------------------------------------------------------------------------|-----------------------------------|---------------------|-------------------------|
|                                                                                                          | Net assets<br>£000                | Number<br>of shares | Net assets<br>per share |
| Consolidated balance sheet                                                                               | 287,241                           | 78,855,975          | 364                     |
| Conversion of Convertible Subordinated Unsecured Loan Stock ("CULS")<br>(net of unamortised issue costs) | 24,223                            | 12,412,171          |                         |
| Exercise of share options                                                                                | 8,724                             | 3,998,308           |                         |
| Fully diluted                                                                                            | 320,188                           | 95,266,454          | 336                     |

Triple net assets per share as at 31 December 2002 were 364p (25 December 2001: 324p). This is calculated after adjusting for unprovided deferred tax and the Group's share of the loan fair value adjustment within associates and joint ventures.

### 30. Valuations

The properties were valued at 31 December 2002, as follows:

|                                                                     | Valuer                         | Basis of valuation                                          | £000   |
|---------------------------------------------------------------------|--------------------------------|-------------------------------------------------------------|--------|
| <b>Group properties</b>                                             |                                |                                                             |        |
|                                                                     | DTZ Debenham Tie Leung         | Open market value                                           | 35,850 |
|                                                                     | Insignia Richard Ellis Limited | Open market value                                           | 6,065  |
|                                                                     | Directors                      | Net sale proceeds of properties sold after 31 December 2002 | 13,800 |
|                                                                     | Directors                      | Open market value                                           | 220    |
| Total investment property assets                                    |                                |                                                             | 55,935 |
| Other fixed assets                                                  | DTZ Debenham Tie Leung         | Open market value                                           | 12,500 |
| Total property assets                                               |                                |                                                             | 68,435 |
| Investment property assets at 31 December 2002 as per balance sheet |                                |                                                             | 55,475 |
| UITF 28 adjustment at 31 December 2002 included in debtors          |                                |                                                             | 460    |
| Total investment property assets as valued above                    |                                |                                                             | 55,935 |

|                                          | Valuer                 | Basis of valuation | £000    |
|------------------------------------------|------------------------|--------------------|---------|
| <b>Properties held by joint ventures</b> |                        |                    |         |
| Xscape Milton Keynes Partnership         | DTZ Debenham Tie Leung | Open market value  | 75,400  |
| Auchinlea Partnership                    | Montagu Evans          | Open market value  | 29,350  |
| Xscape Castleford Partnership            | Directors              | Cost               | 30,940  |
|                                          |                        |                    | 135,690 |

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

### 31. Notes to the cash flow statement

#### (a) Net cash inflow from operating activities

|                                                                                         | 2002<br>£000 | 2001<br>£000 |
|-----------------------------------------------------------------------------------------|--------------|--------------|
| Group operating profit                                                                  | 5,163        | 41,249       |
| Loss/(profit) on the sale of the trading and development properties                     | 1,023        | (183)        |
|                                                                                         | 6,186        | 41,066       |
| Depreciation of other fixed assets                                                      | 482          | 486          |
| Amortisation of short leasehold properties                                              | 203          | 202          |
| Amortisation of tenant incentives                                                       | 308          | 1,741        |
| Profit on disposal of fixed assets                                                      | (6)          | (74)         |
| Decrease in trade debtors, other debtors and prepayments                                | 8,708        | 3,564        |
| Decrease in trade creditors, other creditors, taxation and social security and accruals | (13,850)     | (8,753)      |
| Net cash inflow from operating activities                                               | 2,031        | 38,232       |

### 31. Notes to the cash flow statement (continued)

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

|                                              | 2002<br>£000 | 2001<br>£000 |
|----------------------------------------------|--------------|--------------|
| (Decrease)/increase in cash in year          | (4,408)      | 2,476        |
| Cash inflow from increase in debt financing  | 345,740      | 149,760      |
| Change in net debt resulting from cash flows | 341,332      | 152,236      |
| Net debt at beginning of year                | (457,265)    | (609,501)    |
| Net debt at end of year                      | (115,933)    | (457,265)    |

#### (c) Analysis of net debt

|                          | At<br>25 December<br>2001<br>£000 | Cash flows<br>£000 | At<br>31 December<br>2002<br>£000 |
|--------------------------|-----------------------------------|--------------------|-----------------------------------|
| Cash in hand and at bank | 8,567                             | (4,408)            | 4,159                             |
| Debt due within one year | (3,540)                           | 90                 | (3,450)                           |
| Debt due after one year  | (462,292)                         | 345,650            | (116,642)                         |
| <b>Total</b>             | <b>(457,265)</b>                  | <b>341,332</b>     | <b>(115,933)</b>                  |

### 32. 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** On 3 January 2002 the Group sold six retail parks to The Junction Limited Partnership, an associate, for a total consideration of £165,200,000. £9,600,000 was outstanding in respect of this sale as at 31 December 2002. The Group simultaneously invested £85,000,000 in the Partnership.

During 2002 the Group received management and performance fees totalling £2,600,000 from The Junction Limited Partnership (2001: £nil). As at 31 December 2002 £1,306,000 was outstanding in respect of these fees. These transactions occurred at normal commercial rates.

On 8 January 2002 the Group sold the Auchinlea Retail Park into the Auchinlea Partnership, a joint venture, for a total consideration of £19,500,000. The Group simultaneously invested £5,200,000 into the Partnership. The Partnership reimbursed the Group £1,130,000 of costs relating to the proposed redevelopment of the Auchinlea Retail Park.

The Group received management fees from Auchinlea Partnership of £120,000 (2001: £nil) during 2002. As at 31 December 2002 there were no fees outstanding. These transactions occurred at normal commercial rates.

On 28 February 2002 the Group sold eight shopping centres and one trading property to The Mall Limited Partnership, an associate, for £467,300,000 after costs. The Group simultaneously invested £170,000,000 in the Partnership.

During 2002 the Group received management and performance fees totalling £6,900,000 from The Mall Limited Partnership (2001: £nil). As at 31 December 2002 £3,952,000 was outstanding in respect of these fees. These transactions occurred at normal commercial rates.

The Group received management fees from Xscape Milton Keynes Partnership of £186,000 (2001: £nil) and Xscape Castleford Partnership of £175,000 (2001: £nil) during 2002.

**Other related party transactions** The Group is in a partnership arrangement with Xscape Milton Keynes Partnership and Xscape Castleford Partnership managed by Pricoa Property Investment Management Limited of which Martin Barber is non-executive Chairman.

During 2002 Cine UK Limited leased two of the Group's properties under management and had entered into agreements for lease at two other Group properties under management on normal commercial terms. Tom Chandos is a Director and shareholder of Cine UK Limited. Martin Barber is a shareholder of Cine UK.

David Cherry is a former Senior Partner and currently a consultant to the firm Donaldsons, which has continued to act during 2002 as one of the Group's property advisers and as such has received fees for its services on normal professional terms.

During 2002 the Group employed Hudson Sandler Limited for financial PR and corporate communications advice on normal commercial terms. Tom Chandos is a Director of Hudson Sandler Limited.

### 33. Post balance sheet events

On 24 January 2003 the Group acquired the fund management business of MWB Group plc. The fund management business manages three separate funds that own commercial leisure properties with a total value of £504m.

The Group also acquired MWB Group plc's related equity interest in the three funds. The total consideration was £30.2m.

On 6 January 2003 The Mall Limited Partnership purchased the Grosvenor Centre, Chester for £105.75m.

On 5 February 2003 The Mall Limited Partnership purchased a 50% interest in the Gracechurch Centre, Sutton Coldfield for £52m. The remaining 50% was purchased on 28 March 2003 for £52m. In connection with this purchase on 28 March 2003 the Prudential injected £31m equity into The Mall Limited Partnership.

On 24 January 2003 The Junction (Thurrock) Limited Partnership was formed and acquired three retail parks for a total of £101m. The Junction Limited Partnership has a 65% stake in The Junction (Thurrock) Limited Partnership.

On 26 February 2003 The Junction Limited Partnership acquired £174m of property from Chartwell Land.

### 34. Subsidiary joint venture and associated undertakings at 31 December 2002

| Principal subsidiaries, 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%                              |
| The Mall Limited Partnership                                    | Investment                  | 49.39%                            |
| The Junction Limited Partnership                                | Investment                  | 27.63%                            |
| Xscape Castleford Partnership                                   | Investment                  | 66.7%                             |
| Xscape Milton Keynes Partnership                                | investment and management   | 50%                               |
| Capital & Regional Property Management Limited                  | Management                  | 100%                              |
| Snozone Limited                                                 | Trading                     | 100%                              |

The subsidiary and joint ventures companies are incorporated in, and operate in, Great Britain. Investment in joint ventures and associates are dealt with in notes 17 and 18.

The Company has taken advantage of S231(5) and (6) Companies Act 1985 in not listing all of its subsidiary and joint venture undertakings. All of the above principal subsidiaries and joint ventures have been consolidated in the Group Financial Statements. All voting rights are in line with effective share of business.

# Directors' Report

## for the period ended 31 December 2002

The directors present their report together with the audited financial statements for the period ended 31 December 2002.

**Results and proposed dividends** The consolidated profit and loss account is set out on page 22 and shows a profit on ordinary activities after taxation of £853,000.

The directors recommend the payment of a final dividend of 4.0p per Ordinary share on 16 June 2003, to members on the register at the close of business on 25 April 2003, which together with an interim dividend of 3.0p per Ordinary share, paid in 2002, makes a total of 7.0p for the year.

**Principal activities, trading review and future developments** The principal activity of the Group is that of a co-investing property manager. A review of the activities and prospects of the Group is given in the Chairman's and Chief Executive's overview and Group Finance Director's overview on pages 2 to 6.

**Directors** The directors of the Company at 31 December 2002, were as follows:

M. Barber, T. Chandos, D. Cherry, L. Coral, P. Duffy, K. Ford, M. Gruselle, A. Lewis-Pratt, X. Pullen and W. Sunnucks.

R. Boyland resigned from the main Board of Directors on 30 September 2002.

L. Coral resigned from the main Board of Directors on 31 December 2002 and remains an executive director.

M. Gruselle will retire from the Board at the Annual General Meeting.

It is the Board's intention to appoint PY Gerbeau to the Board on 14 April 2003.

All directors served throughout the year with the exception of R. Boyland and W. Sunnucks (who was appointed to the Board on 15 October 2002.)

In accordance with the Articles of Association, D. Cherry, W. Sunnucks and PY Gerbeau will retire by rotation and, being eligible, offer themselves for re-appointment.

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

**Directors' interests** The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) are interested in 3,456,667 issued shares representing 5.60% of the issued Ordinary share capital of the Company as detailed in the Directors' Remuneration Report on pages 13 to 18.

Save as set out in note 32 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 26 to the accounts.

Details of options granted to the directors, under the same Schemes, are contained in the Directors' Remuneration Report on pages 13 to 18.

**Long Term Incentive Plan (LTIP) and Capital Appreciation Plan (CAP)** The Company established the plans on 18th December 2002 for the benefit of the executive directors and key executives. Details of the plans and awards made are contained in the Directors' Remuneration Report on pages 13 to 18.

**Change of period end** The period end has changed from 25 December to 31 December.

**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 4 April 2003:

|                                       | Shares    | %    |
|---------------------------------------|-----------|------|
| Isis Asset Management plc             | 5,557,405 | 9.00 |
| Fidelity Investments                  | 5,188,391 | 8.40 |
| The Capital Group Companies Inc.      | 5,120,000 | 8.29 |
| United Nations Pension Fund           | 3,936,120 | 6.42 |
| Neuberger & Berman, LLC               | 3,446,099 | 5.58 |
| Legal & General Investment Management | 3,108,410 | 5.03 |
| Morley Fund Management                | 2,719,978 | 4.41 |
| UBS Global Asset Management           | 2,363,059 | 3.83 |

**Charitable donations** During the year the Group contributed £6,296 (2001: £12,888) to UK charities.

**Payment of suppliers** The policy of the Company is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed payment is usually made within one month of receipt of the goods or service. At the year end the Company had an average of 28 days (2001: 22 days) purchases outstanding.

**Compliance with combined code** A statement on Corporate Governance is set out on pages 17 and 18.

**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.

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

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

For example, during 2002, the Mall division achieved portfolio-wide reductions in the consumption of electricity, gas and water compared to the previous year. In each area, the actual reduction was greater than the target set, and was achieved by refining measures already in place, for example, setting mall space temperatures to reasonable levels and the installation of water saving devices. The Mall division also recycles cardboard/paper generated by retailers, which has produced many financial benefits – mainly less waste to landfill sites and a return for tonnage in cardboard recycled.

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

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

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

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

The timetable for the 2003 Final Dividend is set out on the inside back cover. Details of the terms and conditions of the Dividend Reinvestment Plan can be obtained by contacting the Company Secretary at the registered office.

**Post balance sheet events** Post balance sheet events are set out in note 33 to the accounts.

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

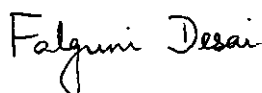
#### **Special business of the Annual General Meeting**

**Pre-emption rights** Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. Under resolution 8, which is proposed as a special resolution, the directors seek to renew their annual authority to allot shares for cash as if the pre-emption rights contained in Section 89(1) of the Companies Act 1985 did not apply up to a maximum of 5% of the Company's issued share capital.

**Authority to purchase own shares** At the Annual General Meeting in 2002, the Company was granted authority to make purchases in the market of its own shares, subject to specified limits. This authority, none of which has yet been exercised, expires at the conclusion of the Company's Annual General Meeting for this year and by resolution 9, which is proposed as a special resolution, the Company is seeking to renew this authority.

The authority is sought until the conclusion of the 2004 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.

By Order of the Board



F. Desai Company Secretary

11 April 2003



# Notice of the Annual General Meeting

Notice is hereby given that the twenty-fourth Annual General Meeting of the Company will be held at The Goring Hotel, 15 Beeston Place, Grosvenor Gardens, London SW1W 0JW on 30 May 2003 at 10.00 am for the following purposes.

## Ordinary business

1. To consider and, if thought fit, adopt the accounts for the period ended 31 December 2002, and the reports of the directors and auditors thereon.
2. To declare a final dividend of 4.0p per Ordinary share.
3. To re-appoint D. Cherry as a director of the Company.
4. To re-appoint W. Sunnucks as a director of the Company.
5. To re-appoint PY Gerbeau as a director of the Company.
6. To re-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.
7. To approve the Directors' Remuneration Report.

## Special business

8. 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 2004 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.

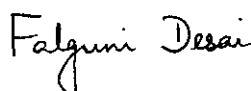
9. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

That: 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 9,200,219 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 2004 or 15 months after the date on which this resolution is passed (whichever is the earlier).

By Order of the Board



F. Desai Company Secretary

11 April 2003

## 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 Scotland, not later than 10.00 am on 28 May 2003.

## Advisers and Corporate Information

### **Auditors**

#### **Deloitte & Touche**

180 Strand, London WC2R 1BL

### **Investment bankers**

#### **Credit Suisse First Boston**

1 Cabot Square, Canary Wharf,  
London E14 4QJ

#### **UBS Warburg**

1 and 2 Finsbury Avenue,  
London EC2M 2PP

### **Principal legal advisers**

#### **Olswang**

90 High Holborn, London WC1V 6XX

#### **Berwin Leighton Paisner**

Adelaide House, London Bridge,  
London EC4R 9HA

#### **MacLay Murray & Spens**

151 St Vincent Street, Glasgow G2 5NJ

#### **Fladgate Fielder**

25 North Row, London W1R 1DJ

### **Principal lending banks**

#### **Bank of Scotland**

4th Floor, New Uberior House,  
11 Earl Grey Street, Edinburgh EH3 9BN

#### **Royal Bank of Scotland plc**

135 Bishopsgate, London EC2N 3UR

### **Barclays Bank PLC**

Property Team, Business Banking,  
PO Box 544, 1st Floor,  
54 Lombard Street, London EC3V 9EX

### **Principal valuers**

#### **DTZ Debenham Tie Leung**

One Curzon Street, London W1A 5PZ

### **Registrars and transfer office**

#### **Lloyds TSB Registrars Scotland**

PO Box 28448, Finance House,  
Orchard Brae, Edinburgh EH4 1WQ

### **Registered office**

10 Lower Grosvenor Place,  
London SW1W 0EN

Telephone: 020 7932 8000

Facsimile: 020 7802 5600

[www.capreg.com](http://www.capreg.com)

### **Registered number**

1399411

## **2003 Financial Calendar**

Annual General Meeting – 30 May 2003

Final dividend record date – 25 April 2003

Final dividend payment – 16 June 2003

Interim results – September 2003

Interim dividend – October/November 2003

2003 Preliminary results announcement –  
March/April 2004

## **2003 Final Dividend timetable**

Record date – 25 April 2003

Last day to receive DRIP mandates –  
2 June 2003

Dividend warrants posted – 14 June 2003

Payment date/shares purchased –  
16 June 2003

Certificates/purchase statements  
despatched – 27 June 2003

CREST accounts credited – 30 June 2003

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