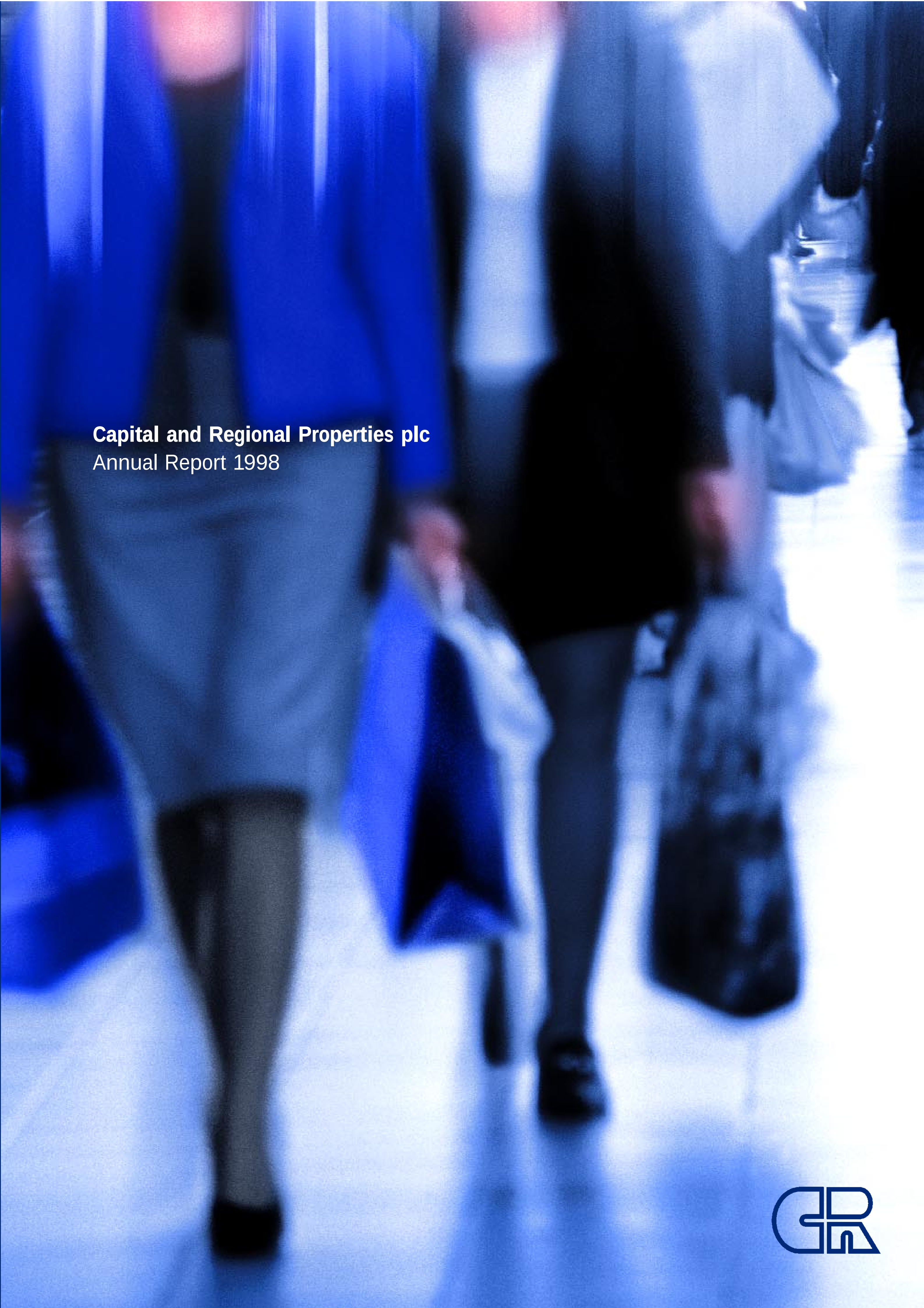


Capital and Regional Properties plc
Annual Report 1998

Capital and Regional Properties is a specialist property investment company, owning some of the most exciting and distinctive retail and leisure properties throughout the UK. The current portfolio value is almost £750m of which around 90% is retail and leisure, totalling over four million sq ft.

Capital and Regional's objective is to use its in-house expertise to create value for tenants and shareholders through the innovative and dynamic management of property assets.

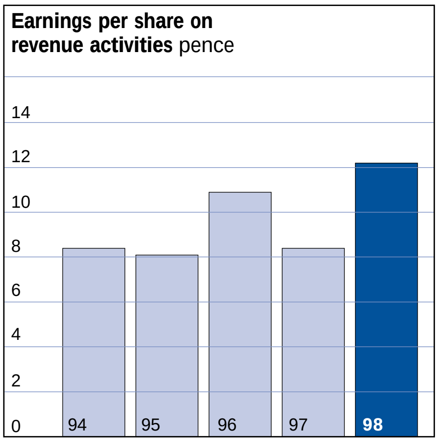
Contents

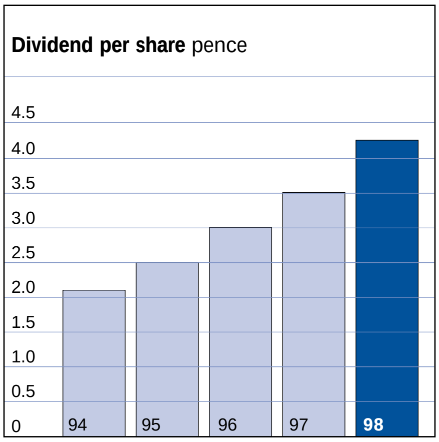
Highlights

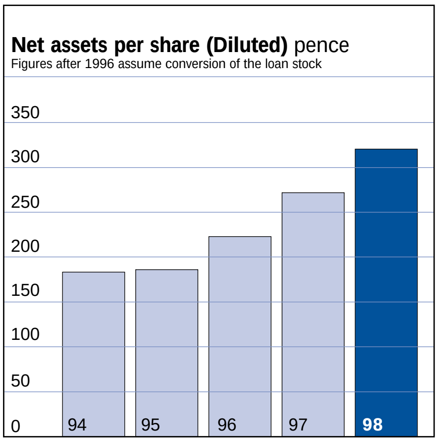
- Net assets per share fully diluted of 321p increased 18% (1997: 272p)
- Profit on revenue activities up 89% to £11.5m (1997: £6.1m)
- Total shareholder return of £58.6m
- Earnings per ordinary share on revenue activities up 45% to 12.2p (1997: 8.4p)
- Dividends per share up 21% to 4.25p (1997: 3.5p)
- On a same store basis, that is property owned at the end of 1997 and retained during the whole of 1998, achieved capital growth of 9% overall compared to 4.2% for IPD
- Acquisitions of £198m during year, including The Pallasades Shopping Centre, Birmingham for £93.8m, with rights issue raising £59m
- Disposals of £56m during 1998
- Announced in September a partnership with two funds managed by PRICOA to develop the £57m 'Sports Village' in Milton Keynes City Centre

Since the year end:

- Acquisition of Westway Cross Shopping Park, Greenford for £33m
- Easter Capital acquired industrial portfolio owned by Phillips & Drew Fund Management and Capital and Regional partnership for £28.2m







Chairman's Statement

Capital and Regional has had an excellent year. We believe our approach and capability is unique in the UK quoted property sector. The Company has the property portfolio, the management team and strategy in place to be confident of continuing to achieve well above average growth over the next several years.

Martin Barber Chairman
26th February 1999

1998 was an excellent year for Capital and Regional. During the first half of the year we completed the rationalisation of our portfolio, which commenced in 1997. From this exercise, total realisations were approximately £120m, comprising £71m in 1997 and £49m during 1998. In addition, during the year some £7m was realised from trading properties.

In April, we acquired The Pallasades Shopping Centre in central Birmingham for £93.8m, financed partly by an equity issue, which raised £59.1m. We are already making good progress with this Centre and believe the opportunities exist for superb future returns. Further information is included later in Kenneth Ford's report.

In September, we announced one of our most exciting developments to date, Sports Village in Milton Keynes. This is a new concept, providing over 400,000 sq ft of leisure and retail space, including a 'real snow' indoor ski slope. Approximately 83% of the development was pre-let before we entered into our commitments.

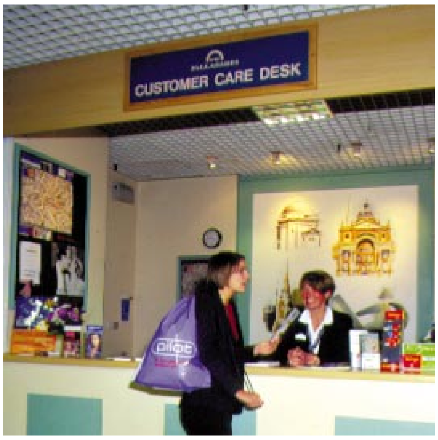
This project is a co-venture on a 50:50 basis with funds managed by PRICOA Property Investment Management Ltd, a wholly owned subsidiary of the Prudential Insurance Company of America.

Results

Our net assets per share fully diluted of 321p have increased 18% from 272p. Profit on revenue activities has increased 89% to £11.5m (1997: £6.1m). Earnings per share on revenue activities are up 45% to 12.2p (1997: 8.4p). A final dividend of 2.75p per share is proposed, making a total for the year of 4.25p per share (1997: 3.5p), an increase of 21%. We are arranging with our advisers, a facility for dividend reinvestment by shareholders and further details will be provided later this year.

When one adds the increase in the balance sheet reserves to the dividend, the Company has delivered a total return to shareholders of £58.6m during this year.

Customer care



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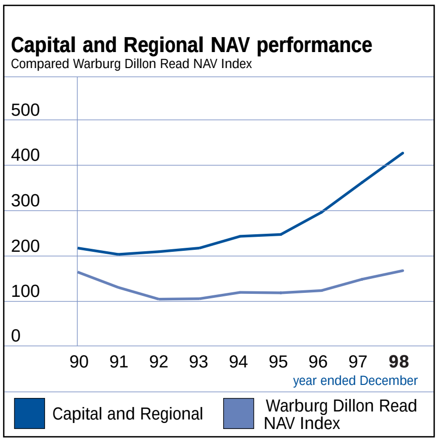


Marketing and promotion

Benchmark against IPD Monthly Index

	Same Store Growth %	Annual IPD Capital Growth %	Portfolio Growth %	Weighted Average IPD Growth %
Shopping Centres	4.7	0.6	5.4	0.4
Retail Parks	19.1	5.4	15.8	4.0
Industrials	14.4	4.1	7.1	2.0
Total Investment Portfolio	9.0	4.2	7.9	3.2

Strategy

Capital and Regional recognised in early 1997 that the rate of growth in average rents in UK property was likely to slow. We are now entering a low inflation environment and over the long term rents can only grow in line with the economy as a whole. Our strategy to enable our properties to grow at a faster pace than the overall economy has been to add an additional dimension to normal activities.

Over the past few years, Capital and Regional has sought to differentiate itself from other property companies, by developing additional skills at properties such as larger shopping centres and retail and leisure parks. We have developed the in-house expertise to assist the tenants by encouraging more consumers to visit the property, through an ongoing programme of events and excellent marketing and promotion.

If footfall increases, our tenants are more profitable and the rental income potential of our properties increase. Our tenants have seen their sales in our Centres improve and welcome this style of management. We are also working closely with local authorities and the police to ensure that the shopper has a safe, secure and clean environment to visit.

The success of the Capital and Regional approach is addressed in greater detail in Kenneth Ford's and Andrew Lewis-Pratt's reports.

Easter Group

Our exposure to the industrial property sector is through joint ventures with Peter Taylor and associates. This is implemented through two distinct and separate companies, Easter Capital Investment Holdings (75% Capital and Regional owned), an investment property company and Easter Holdings (50% Capital and Regional owned), a merchant developing and management company.

This industrial investment portfolio is now approaching £100m and most of the returns are contributed through cash flow. This is extremely useful to counter balance the initially lower yielding retail investments that Capital and Regional makes. Since this is now a significant part of our overall portfolio, I have asked Peter Taylor to include his report on activities within this statement.

Employees

These results reflect the strength of our professional team at all levels of the business. On behalf of the Board and all our shareholders, I would like to express my sincere thanks to all our management and staff for their contribution to the continued success of Capital and Regional.

Outlook

We see the economic environment as relatively stable for the next several years. Even though inflation may be low, we expect our growth to outperform the sector.

Capital and Regional believes its approach and capability is unique in the UK quoted property sector. The Company has the property portfolio, the management team and strategy in place to be confident of continuing to achieve well above average growth over the next several years.

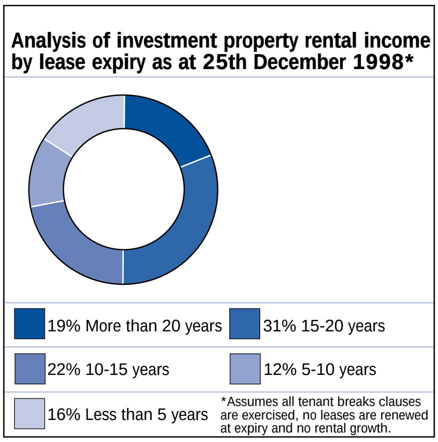
Property Overview

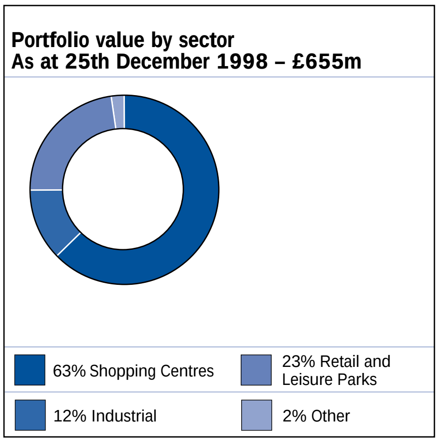
1998 was again a very active year in terms of our property portfolio with acquisitions totalling almost £198m and sales of £56m. Our portfolio has performed extremely well. We enter 1999 with a very optimistic view of the prospects in our markets. We will take advantage of any weaknesses in the market which provide us with opportunities to add value.

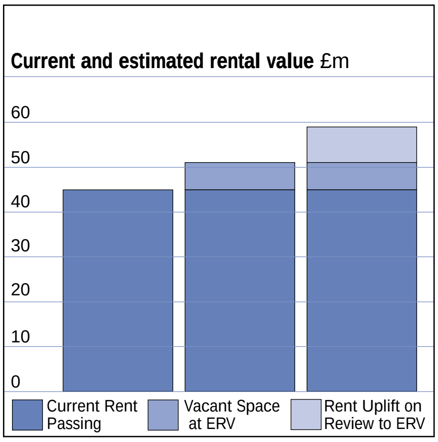
Xavier Pullen Joint Managing Director
26th February 1999

During 1998 tenant demand for our properties has been strong resulting in substantial rental and capital growth. This proves that management counts. We have carried out physical regeneration programmes complemented by excellent marketing and promotion initiatives within our retail properties. The tenant response has been good, as they know that they will be able to trade more profitably in a Capital and Regional managed property. The tone of negotiations and enquiries for 1999 is positive.

The investment markets remained strong during 1998, aside from a slowdown during the third quarter when buyers were unsure of the economic outlook. We enter 1999 with a highly competitive market and see no reason for demand to diminish, particularly with the trend towards significantly lower medium to long term interest rates. Although the economy has slowed slightly, we







would certainly not describe our market conditions as being recessionary and are highly confident of our ability to continue our growth record.

Property portfolio

1998 was again a very active year in terms of our property portfolio with acquisitions totalling almost £198m and sales of £56m. Our portfolio has performed extremely well. On a same store basis, that is property that we owned at the end of 1997 and retained during the whole of 1998, we achieved capital growth of 9% overall compared to 4.2% for IPD. This is broken down as follows; shopping centres 4.7% (IPD 0.6%); retail and leisure parks 19.1% (IPD 5.4%) and industrials 14.4% (IPD 4.1%). Our portfolio now comprises 86% retail and leisure, 12% industrial and 2% other.

It is worth noting that our portfolio is highly reversionary. The estimated rental value being about £12.4m higher than the £45.4m rents passing at the end of the year. This does not take into account the significant expansion and development opportunities within the portfolio which my co-directors describe in further detail on the following pages.

The income from the investment portfolio is high quality, with 72% of passing rent derived from leases expiring after more than ten years and over 80% of retail income receivable from recognised national or regional multiple traders.

Capital and Regional is bringing together the management, marketing and leasing activities of our retail and leisure teams both ‘in-town’ and ‘out-of-town’, as there is increasing crossover between tenants in either location.

Trading portfolio

We have acquired a number of opportunities for our trading portfolio where we are using our management skills to add short term value. The Company has purchased small shopping centres in Bicester and Dorchester, a leisure development opportunity in Grimsby and High Street retail development opportunities in Birmingham, Liverpool and Glasgow.

With the strength of our tenant connections and the development expertise that we have built over the past few years, we are happy to use these skills to regenerate smaller properties which can provide good profits in the future, but would not be suitable as core long term holdings.

Outlook

We enter 1999 with a very optimistic view of the prospects in our markets. We will take advantage of any weaknesses in the market which provide us with opportunities to add value.

Shopping Centres

The shopping centre portfolio has had a very active year, with its value rising by 5.4%. From the Centres' owned throughout the year, income increased by 6.6% and estimated rental value by 9.6%. With the Company's energetic and committed management teams in London, Glasgow and at the Centres, we look forward to building on last year's successes.

Kenneth Ford Executive Director
26th February 1999

The Company's shopping centre portfolio has had a very active year, with its value rising by 5.4%. From the Centres' owned throughout the year, income increased by 6.6% and estimated rental value by 9.6%.

Meaningful progress has been made in the implementation of the individual Centres' business plans, the highlights of which are reviewed below.

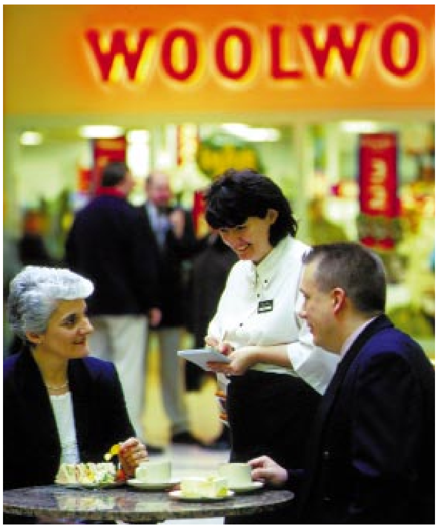
The acquisition of The Pallasades, Birmingham in April for £93.8m, the Company's largest purchase to date, continued the expansion of our portfolio of centres which provide opportunities to add value through the application of the Company's management philosophy. Effectively being part of New Street's railway station and the main entry point to Birmingham city centre, we are in active dialogue with Railtrack, the station's owners, to both extend and modernise the retail area as part of a greater integration with the station concourse. With footfalls in excess of one million people per week and a significant under supply of retail space in Birmingham, The Pallasades represents an outstanding opportunity.

We completed the transition from outsourcing centre management to 100% in-house management with the establishment of Capital and Regional Facilities Management Limited (CRFM). This Company, headed by group asset manager, Mark Bourgeois, and technical director, Ronnie Maclean, provides support to our on-site managers, ensuring the Capital and Regional management brand is synonymous with the highest standards of security and mall cleanliness. At the same time, we deliver value for money to our tenants through economies derived from utility and supplier bulk purchasing. Development of staff loyalty and pride through employment by and direct communication with, the Company is already producing benefits of continuity and stability of personnel at the Centres.

The Group Marketing and Promotion Unit, headed by Sarah-Jane Berry, has had another very successful year, devising and implementing imaginative campaigns which have resulted in our Centres welcoming approximately 120 million visitors during 1998. There was an increase of almost 5% on shopping centres owned throughout the year. This effort was acknowledged by the British Council of Shopping Centres who awarded the Company both a merit for Excellence in Marketing and the Best Exhibition Stand at their annual conference in Birmingham. In the coming year, the Company will embark on a Brand Partner Programme to provide additional benefits to the Company, tenants and shoppers. We intend to extend both our CRFM capabilities outlined earlier and these marketing skills to the retail and leisure park portfolio.

These footfall figures and tenancy synergies across the portfolio, co-ordinated by leasing manager, John Wood, have contributed to a reduction in the portfolio void units of 10%.

The widely reported difficult trading conditions for retailers were not generally evident across our portfolio.



Alhambra Centre

Trinity Centre

The shoppers' sophistication in appreciating value is mirrored in our selection of centres – community value focused malls, established within local and loyal catchments. Our core tenancy base has generally maintained their sales levels, year on year against an exceptional 1997.

The Company's established tenancy relationships are now being further developed by the introduction of traditional High Street retailers to retail park format. The close working relationship in our management teams, enables the Company to also benefit from the leisure experiences of the retail park division as we introduce leisure components to our Centres, further enhancing their attractiveness to their communities.

1998 Highlights

The Pallasades, Birmingham

Since our acquisition in April, we have pursued various tenancy initiatives to satisfy tenant demand. This has improved rental income, whilst retaining the flexibility required to take advantage of the opportunity presented by the greater integration of the rail passenger function with an expanded retail offer. Agreement has been reached in principle with Railtrack, the owner of both New Street Station and the freeholder of The Pallasades; and concept schemes are in preparation. These plans include; the expansion of the retail area into the existing station concourse; the diffusion of pedestrian flows through the enlarged Centre; the improvement in mall access to Birmingham City Centre and the modernisation of the external appearance of the property.

It is hoped that an agreed scheme will be launched towards the end of 1999. Integral to this exercise is a negotiation to re-gear our present leasehold arrangements with Railtrack.

We have completed the construction of the 27,500 sq ft unit pre-let to JJB Sports which is now being fitted out. Negotiations are in hand, for a number of new lettings, which if successfully concluded, will establish rental levels substantially in excess of present estimated rental values.

Creative marketing and promotion
Strategic campaigns are developed for individual properties.
These are constantly evaluated and repositioned to maximise success.

Trinity Centre

The Trinity Centre, Aberdeen

The benefits of our direct management programme over the five years of ownership are increasingly evident. Year on year footfall has increased by 13.3%, with a new benchmark Zone A rent of £65 per sq ft established. The Railtrack feuhold has also been acquired for £4.45m. The anchor store Debenhams completed their £5m refit and the new 12,000 sq ft HMV store has opened. The next phase of improvements to the Centre will be completed during 1999.

The Howgate Centre, Falkirk

The feuhold of the Centre has been acquired for £5.6m. Planning consent has been achieved for the new entrance canopy, branding and signage, which will be installed during Spring 1999. Negotiations continue to reconfigure the Marks & Spencer atrium to increase the retail area; improve shopper circulation and introduce a revitalised catering offer. Prime rental value continues to improve and £90 per sq ft Zone A is now being established.

The Alhambra Centre, Barnsley

The extension to the Wilkinson anchor store is now completed and trading successfully, together with the new 6,000 sq ft Peacocks unit. The remaining vacant space is under discussion with retailers new to Barnsley. Planning consent has also been achieved to rebrand the Centre's identity and signage which will be completed during Spring 1999.

Shopping City, Wood Green

1998 saw the launch of Shopping City 2000; a regeneration programme for the Centre, embracing the introduction of a 12 screen multiplex pre-let to Cine UK, which with the new restaurant catering uses complement the health club which opened last year. The popular market hall is being relocated to an extended ground floor and 30,000 sq ft on the first floor has been pre-let to Wilkinsons. The mall environment is being modernised. External and internal signage will be improved to complete the rebranding exercise.

These proposals together with other initiatives will results in estimated capital expenditure of £21m. We expect this exercise to produce estimated additional income of £3m per annum.

We are introducing new retailers to the Centre and early interest from both retailers and shoppers in the Shopping City 2000 concept is very encouraging.

The 'Zero Tolerance Crime Initiative' which we have undertaken in association with the local authority, has been acknowledged by the Metropolitan Police with a Secure Car Park Award. Our success has also been recognised by the Home Office and British Retail Consortium who chose to launch their 'Community Crime Reduction Partnership Guide' at Shopping City.

Sauchiehall Centre, Glasgow

Negotiations continue on reconfiguration and design proposals for pre-letting interest. A planning application has been lodged for a health club, and the letting is currently in solicitors hands. Whilst the

The Pallasades

Selborne Walk

Selborne Walk

Alhambra Centre

Trinity Centre

redevelopment initiatives are being explored, short term lettings are being introduced to reduce void costs whilst maintaining flexibility.

Selborne Walk, Walthamstow

During 1998, Selborne Walk celebrated its 10th Anniversary with the successful launch of a new identity. During the year, over 75% of the Centre was subject to a rent review and we secured new benchmark rents which are substantially above budget. Given the Centres dominant position in the community, we have applied for planning consent to integrate a multiplex based leisure component as well as providing additional retail space to satisfy proven tenant demand.

Liberty 2, Romford

The Centre has achieved key lettings to Allsports, Lunn Poly and Pilot. Tenancy demand is strong and we are presently appraising a reconfiguration design to improve customer flow, modernise the atrium catering unit and create more valuable space. We continue to monitor opportunities to improve the Centre's critical mass. The footfall within this Centre has increased by 2.2%.

Eldon Garden, Newcastle upon Tyne

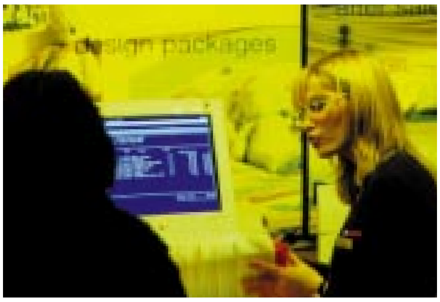
At Eldon Garden, we were presented with a Merit in the 1998 British Council of Shopping Centres Marketing Awards. Successful destination retailers within the scheme continue to prosper and expand, however, certain high fashion retailers have experienced difficult trading conditions during 1998. It is hoped this will stabilise during 1999, when a number of initiatives to improve the Centre's critical mass will be finally appraised. In the interim, the successful marketing and promotional campaigns continue to improve footfall which increased by 6.5% during 1998.

With the Company's energetic and committed management teams in London, Glasgow and at the Centres, we look forward to building on last year's successes.

Building a brand identity
Capital and Regional invests in re-branding its properties to ensure a strong position within the local retail hierarchy.

Retail and Leisure Parks

During 1998, the retail and leisure park portfolio rose in value by 15.8% which is an excellent result in this competitive retail environment. With our dynamic management team's entrepreneurial flair, retailer knowledge coupled with shopping centre style marketing and promotion, we are confident of continuing our success.



Andrew Lewis-Pratt Executive Director
26th February 1999

During 1998, the retail and leisure park portfolio rose in value by 15.8% which is an excellent result in this competitive retail environment.

Since the emergence of retail parks during the 1980's, we have witnessed numerous changes in the type, quality and quantity of both the supply of product and retailer demand. It is this dynamic environment which continues to create the opportunities for us to succeed in continually outperforming the property market, primarily as a result of our in-depth expertise and experience in this specialist sector.

Retailer demand remains vibrant; although a number of traditional bulky goods retailers are experiencing trading difficulties, other retailers such as Dixons and Matalan are trading extremely well. Both these retailers are continuing and enhancing their expansion plans for 1999 and beyond. We currently foresee less scope for expansion for the furniture and carpet retailers, however, DIY retailers such as B&Q and Homebase continue to trade well and expand alongside the electrical retailers, such as PC World and Comet, who are upsizing their property requirements and continuing their expansion plans. Our leasing manager, Jim Adams, is constantly reviewing all requirements to ensure that we take early advantage of the changes in retailer's strategy.

The evolution of retail parks continues with the rapid expansion plans 'out-of-town' of major high street retailers such as Boots, Next and Woolworths. Independent research has shown that high street retailers have the ability to pay considerably higher rents than the traditional bulky goods operators.

Future supply of new retail parks, especially those which benefit from open A1 consent, is extremely limited, as a direct result of the Government's continuing and ever hardening clamp down on 'out-of-town' retailing. This will inevitably result in existing stock becoming more valuable.

Over the past four years, we have acquired a number of older retail parks and transformed them into quality bulky goods retail parks, such as Wembley Retail Park, or into prime retail parks such as Blythswood, Glasgow. In the current economic climate, we see less scope for upgrading older bulky goods parks, although there remains considerable scope for further improvements on our existing parks. Richard Gore, investment director and the rest of the retail park team are constantly seeking further opportunities where we can utilise our active management style.

In excess of 70% of our portfolio now has the benefit of either open A1 or restricted A1 non food planning consent; the average rent throughout

Blythswood Retail Park

the retail park portfolio is only £9.77 per sq ft which provides considerable opportunity for further growth.

Furthermore, we have identified the potential to increase the size of our existing portfolio through the construction of additional floor space of over 210,000 sq ft. This represents approximately 18% of the total floor space.

Since the year end, we have acquired Westway Shopping Park, Greenford in Middlesex for £33m, which is substantially let to retailers such as Outfit, Boots and Holiday Hypermarket.

1998 Highlights

Blythswood Retail Park, Glasgow

During the year construction of 90,000 sq ft of new retail floor space was completed. This has been 95% let to MFI, Harveys, Carpetright, Landmark, JJB Sports, Texstyle World, Matalan and Allied Carpets. The latest letting was achieved at £16.50 per sq ft compared to approximately £9.00 per sq ft on acquisition in March 1997. We anticipate letting the final unit during the first half of 1999, at a new market rent. Further initiatives for 1999 include a major food store. The park has improved in value in less than two years by £21m, an 85% increase on the total cost of the investment.

Beckton Retail Park, London, E6

Planning consent was obtained in February 1999 for a further 25,000 sq ft. A refurbishment of the entire park is now proposed, subject to certain pre-lettings currently in negotiation being completed.

Strong relationship with retail partners
Capital and Regional believes that close working relationships with tenants enables mutual success.

Bognor Regis Retail Park

Blythswood Retail Park

Bognor Regis Retail Park

Since acquisition of this 69,000 sq ft park in January 1998, we have settled one rent review above expectations and let two further units, the latest one being at £12.00 per sq ft, some £3.00 per sq ft higher than previously obtained on the estate.

Lancaster Retail Park

This 101,000 sq ft investment was acquired in June 1998 and is the City's only retail park. We have entered into a new agreement with MFI for a 20,000 sq ft unit at a rental of £12.00 per sq ft compared to the average rent on the estate of £9.00 per sq ft. Planning consent has been obtained to extend the estate by some 5,000 sq ft and negotiations are underway to secure further lettings and extensions.

Wyrley Brook Retail Park, Cannock

Planning consent has been granted for the redevelopment and refurbishment of this estate to comprise approximately 105,000 sq ft. Construction is shortly to commence for a new B&Q store of 44,000 sq ft and the latest letting to Kingsway at £12.00 per sq ft is against average rents for the estate of £6.00 per sq ft upon acquisition.

We anticipate letting the remaining units during the construction process and completion is planned for the year end.

Channons Hill Retail Park, Bristol

Following the grant of planning consent for a discount food store, a new 12,000 sq ft unit has been let to Lidl at a rental of £10.00 per sq ft. Further lettings are under negotiation.

Wembley Retail Park

The next phase of the enhancement programme for Wembley is now under way, where we intend to relocate some of our existing tenants into newly created units, thereby providing a further 30,000 sq ft to re-let, subject to planning approval.

We intend marketing and letting these units once consent is obtained for a restricted A1 use, which we believe will attract sports and lifestyle retailers. Due to the parks location being adjacent to the proposed new Wembley Stadium and the new access road from the North Circular, expectations for this property are high.

Junction 10 Retail Park, Glasgow

This 100,000 sq ft open A1 retail park has been substantially reconfigured with the latest unit being let to Landmark, at a new market rent for the estate at £15.00 per sq ft.

Significant future proposals are planned which will substantially enhance the potential of the park.

Ashford Leisure Park, Kent

On acquisition of this leisure park site in August 1998, we had substantially pre-let the scheme to Cine UK, Pizza Hut, Burger King, KFC and City Centre Restaurants. We have since let a 28,000 sq ft healthclub to Stakis and terms have been agreed to lease a 60 bedroom hotel and 7,000 sq ft public house. Completion of this project is due in the Autumn.

Westway Cross Shopping Park

Sports Village, Milton Keynes

Construction of our most exciting development to date is currently on time and on budget and completion is due in May 2000. 83% of floor space was pre-let by Simon Berry, development director and his team prior to acquisition, which we consider to be a major achievement for such an innovative scheme and illustrates the confidence of leisure and retail operators in the concept. Our latest letting to JD Weatherspoons is above the rental level that we budgeted on acquisition. A branding initiative is currently underway and marketing for the remaining space will commence in April this year.

With our dynamic management team's entrepreneurial flair, retailer knowledge coupled with shopping centre style marketing and promotion, we are confident of continuing our success.

Bringing retail and leisure together

The integration of retail and leisure improves the overall consumer offer and retailer profitability.

Sports Village, Milton Keynes (above), a new concept providing over 400,000 sq ft of retail and leisure space, including a 'real snow' indoor ski slope.

Easter Group

Easter looks forward to 1999 with confidence. The investment portfolio continues to grow and will be enhanced by the latest acquisitions. Further new development, both for trading and investment, will be carefully selected and in areas we know and where tenant demand exists.

Peter Taylor Chief Executive
Easter Group
26th February 1999

We have performed creditably in 1998. The investment company, Easter Capital Investment Holdings has seen gross assets rise from £21.6m at 1997 year end to £70.6m at the end of 1998. The properties owned for the full year produced a total return of over 21%.

Easter Capital Investment Holdings

During 1998, we continued to make progress with existing holdings:

Wrexham Industrial Estate

Wrexham Industrial Estate has seen considerable expansion over the last three years, mainly as a consequence of increased investment in manufacturing facilities by major corporate owner occupiers. Our holding on this estate is some 515,000 sq ft.

On acquisition in 1996, approximately 36% of the floor space was vacant. This has now been reduced to approximately 7% as a result of active on-site management and by programmed refurbishment of units and improved management. We are shortly to start a speculative phase of some 40,000 sq ft, on part of the 30 acres that we hold for future development.

Springvale, Cwmbran

Acquired in January 1998, we are rebranding the 304,533 sq ft estate with the approach adopted at Wrexham. Improvements to external appearance, new signage, a programme of refurbishment and improvements coupled with the opening of our on-site office has resulted in a substantial number of new lettings and rental growth. Three further acquisitions were made during the year to increase the holding and improve the quality of the investment.

Court Road, Cwmbran

A small 57,839 sq ft estate of 25 modern units purchased which are complementary to our existing holding at Springvale and approximately one mile away.

South Wales Portfolio
Three further holdings in South Wales totalling 313,000 sq ft were purchased to augment our existing properties in the region. The principal buildings are in Cardiff, Abercarn and an estate of eighteen units at Nine Mile Point, Cwmfelinfach.

Deeside, near Chester
This modern 174,450 sq ft estate is fully let apart from one small unit. The land acquired with this property is now in the course of development to provide a further 72,500 sq ft of floorspace.

Kearsley, Bolton
Half of the Europa Trading Estate was acquired comprising 125,908 sq ft in 14 units. Certain improvements will be carried out, including the possible development of surplus land.

Hay Hall Works, Tyseley, Birmingham
An old style estate of buildings comprising 347,222 sq ft on a site of some 13.4 acres close to Birmingham City Centre was acquired. The estate is fully let to good covenants on mainly long leases.

Astmoor Industrial Estate, Runcorn
Astmoor is the most important light industrial estate in Runcorn and we have acquired a large section of it. The property is 385,841 sq ft and of a size where active management, coupled with the refurbishment of some 57,400 sq ft will make a considerable impact on both cash flows and value.

Since the year end the following properties have been acquired:

Easter Industrial and Easter Runcorn Portfolios
We have acquired from Phillips & Drew Fund Management their 75% share in these industrial portfolios comprising 794,638 sq ft that Easter have managed since 1993 and 1994 respectively and in which Capital and Regional has held a 25% interest.

New developments

Twelve Quays, Birkenhead
We have a development agreement with English Partnerships covering some 20 acres. We are undertaking a business park development which so far comprises 87,252 sq ft and consists of one office building and five factory units of which 67% is let. Further phases are planned.

North East England
Three sites at Thornaby on Tees, Boldon and Cramlington have been acquired and developed with new factory units totalling 137,000 sq ft, half of which is now let.

In 1999, we are expecting improved occupancy and cashflows as a result of programmes already put in place. We continue to look for existing industrial estates and sites in locations where we believe our management skills can be applied and where growth can be achieved. To this end, we are acquiring land at Stockton-on-Tees, Yate and Nottingham to carry out new developments in areas of serious shortage of new space and have various investments under review.

Easter Holdings
Our development trading company, Easter Holdings, has had another successful year, completing a number of developments and starting work on several new projects. The highlights of the development programme are as follows:

Kingsway North, Team Valley
We have completed the development of some 40,000 sq ft, which is let to three quality tenants on long leases and will be sold this year.

West Acre, Willenhall
We completed a 57,000 sq ft pre-let warehouse and cold store for A F Blakemore & Sons and sold the finished project in the summer to the Merchant Navy Pension Fund.

Libra, Milton Keynes
A development of four stand-alone, headquarter type warehouse/production units totalling 110,000 sq ft. Three units have been let and the scheme is funded by Norwich Union.

Hemel Hempstead
A bespoke building designed and developed by Easter and pre-sold to NGK Spark Plugs for their UK head office and distribution facility.

Site F, Maidstone Road, Milton Keynes
A bespoke factory of 38,500 sq ft pre-let to a local printing company and forward sold to MGM Assurance.

Pisces, Trafford Park
A development of two buildings totalling 62,500 sq ft, one of which has been let to Boots the Chemist whilst the other is still available. The scheme is funded by Scottish Provident.

Leo, Trafford Park
A development of 65,000 sq ft in three units. The project is forward funded by Xerox Pension Fund and will be completed in the Spring.

Taurus, Oxford
A joint development with Abacus. Three units on the ring road comprising 35,000 sq ft leased and sold to Abbey Life.

Gemini 8, Warrington
A 14 acre site to be developed in two phases with a total of 220,000 sq ft and forward funded by Standard Life. The first phase will be completed later this year.

Easter looks forward to 1999 with confidence. The investment portfolio continues to grow and will be enhanced by the latest acquisitions. Further new development, both for trading and investment, will be carefully selected and in areas we know and where tenant demand exists.

Principal Properties

Value in excess of £30m

Property	Sector	Tenure	Sq ft (Sq m)	Principal Tenants	
Pallasades Shopping Centre, Birmingham	Shopping Centre	Leasehold	300,000 (27,781)	Argos Austin Reed Boots	JJB Sports Mothercare Woolworths
Shopping City, Wood Green, London	Shopping Centre	Freehold	463,000 (41,821)	Argos Boots C&A Evans	Pearsons Dept Store Topshop/Topman Wilkinsons W H Smith
Howgate Shopping Centre, Falkirk	Shopping Centre	Feuhold	190,000 (18,587)	Argos Burton Group Etam Marks & Spencer New Look	Superdrug USC Wallis Woolworths
Blythswood Retail Park, Glasgow	Retail Park	Freehold	270,619 (25,150)	B&Q Carpetright Comet Currys Harveys	JJB Sports Matalan MFI Texstyle World
Selborne Walk, Walthamstow	Shopping Centre	Leasehold	280,500 (26,487)	Bhs Currys Dixons First Sport	Holland and Barratt Mothercare Our Price River Island
Trinity Centre, Aberdeen	Shopping Centre	Feuhold	214,000 (19,880)	Argos Debenhams HMV	Ottakers Signet Superdrug
Westway Cross Shopping Park, Greenford	Retail Park	Freehold	120,000 (11,152)	Boots Carphone Warehouse Hobbycraft	Holiday Hypermarket McDonalds The Outfit
Wembley Retail Park, Wembley	Retail Park	Freehold	259,974 (24,161)	Allied Carpets Carpetright Comet	Furnitureland Harveys MFI
Sauchiehall Centre, Glasgow	Shopping Centre	Feuhold	180,000 (16,728)	Argos Burtons Menswear Clinton Cards	Dorothy Perkins John Menzies Superdrug TK Maxx

Value £20m-£30m

Property	Sector	Tenure	Sq ft (Sq m)	Principal Tenants	
Liberty 2, Romford	Shopping Centre	Leasehold	82,000 (29,739)	Allsports Ciro Citterio Jeffrey Rogers McDonalds	Odeon Cinema Peacocks Pilot Spoils
Alhambra Shopping Centre, Barnsley	Shopping Centre	Leasehold	165,000 (16,534)	Allsports Coop Living Mothercare Next	Peacocks Wilkinsons Woolworths

Value £10m-£20m

Property	Sector	Tenure	Sq ft (Sq m)	Principal Tenants	
Beckton Retail Park, London	Retail Park	Freehold	140,000 (13,005)	Homebase Kwik Save Landmark	Poundstretcher Sports Division
Junction 10 Retail Park, Glasgow	Retail Park	Leasehold	99,557	Carpetright Landmark	MFI Top Rank Bingo
Wrexham Industrial Estate, Wrexham	Industrial	Freehold	515,000 (47,862)	Barlow Handling Cookson Duracell	JCB Porvair Technology
Lancaster Retail Park, Lancaster	Retail Park	Freehold	102,544 (9,527)	Carpetright Fads Harveys	MFI Wickes
St Andrew House, Glasgow	Retail Office	Feuhold	92,500 (8,593)	Atlantic Telecom Bodycare Burger King Granada	Thomas Cook Time Computer Systems TSB
Eldon Garden Shopping Centre, Newcastle	Shopping Centre	Leasehold	42,500 (4,087)	Austin Reed Morgan de Toi Sony Centre	The Penshop Wolford
Manor Park Estate, Runcorn	Industrial	Freehold	336,610 (31,283)	Churchills Stairlifts Fresenius Paxar Europe	Pourshins Warburtons Whitford Plastics
Astmoor Industrial Estate, Runcorn	Industrial	Freehold	385,839 (35,858)	Belfor Imbach Cheshire Folding Cartons	Norton HealthCare P & W Printers Shandon Scientific
Wyrley Brook Retail Park, Cannock	Retail Park	Freehold	105,570 (9,940)	Allied Carpets B&Q	Fashion Brokers Kingsway

Value £4m-£10m

Property	Sector	Tenure	Sq ft (Sq m)	Principal Tenants	
Springvale Industrial Estate, Cwmbran	Industrial	Freehold	230,000 (21,375)	Cyril Luff Kara Vale Enterprises	Rolls Royce Power Eng. plc Siebe Gorman
Deeside Industrial Estate, Deeside	Industrial	Freehold	247,500 (22,992)	Hydro Coatings Kimberly Clark	
Bognor Regis Retail Park, Bognor Regis	Retail Park	Freehold	62,165 (5,777)	Halfords Harveys	Landmark LIDL
Channons Hill Retail Park, Bristol	Retail Park	Freehold	59,204 (5,502)	Currys Great Mills	
Twelve Quays, Birkenhead	Industrial	Freehold	87,252 (8,108)	Burall Carwood LJMU	Telescope Technologies
Europa Trading Estate, Kearsley	Industrial	Freehold	125,908 (11,701)	Foseco (GB) Health & Diet Food Company	Lansing Linde The Co-operative Bank

Finance Review

During the past three years the Group has implemented a financing strategy with six banks that have experienced property teams and long-term commitment to the UK property market. The Groups' strategy is to enter into extendable secured revolving credit facilities with broadly similar terms and covenants.

Roger Boyland Joint Managing Director
26th February 1999

Summary

The Group's borrowings at 25th December 1998 were £366.1m (1997: £261.8m) including £24.6m of Convertible Subordinated Unsecured Loan Stock (CULS). Borrowings by associates and joint ventures were an additional £16.9m (1997: £26.4m). Net cash balances were £5.5m (1997: £9.2m) and the Group had approximately £59.8m (1997: £17.3m) of undrawn secured facilities. The increase in borrowing during 1998 reflects the financing of acquisitions and the refurbishment of and improvements to our properties during the year net of property disposals.

£59.1m was raised by way of an equity issue in April 1998 to part finance the acquisition of The Pallasades Shopping Centre, Birmingham.

Financing strategy

During the past three years the Group has implemented a financing strategy with six banks that, in the opinion of the Directors, have experienced property teams and long-term commitment to the UK property market. The Groups strategy is to enter into extendable secured revolving credit facilities with broadly similar terms and covenants. These facilities provide the group with the flexibility to draw down and repay borrowings within the covenant parameters, and provide a cost efficient structure, which allows the substitution and addition of new properties as security.

Project loan finance is separately arranged as required for specific developments and joint ventures.

Interest rate hedging strategy

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

Table 1 **Fixed rate debt instrument**	Book value £m	Notional principal £m	Market value £m	Fair value adjustment £m
CULS	24.6	n/a	25.3	0.7
Bank borrowings	15.3	n/a	16.1	0.8
Interest rate swaps	n/a	247.9	257.7	9.8
	39.9	247.9	299.1	11.3
Minority Interests				0.2
Fair Value Adjustment attributable to Group				11.1
Net of tax at 31%				7.7

Table 2 **Repayment**	Drawn Earliest £m	Drawn "Evergreen" £m	Undrawn Earliest £m	Undrawn "Evergreen" £m
1999	0.8	0.8	–	–
2000	34.0	27.9	12.0	–
2001	173.0	171.5	21.3	21.3
2002	133.7	133.7	26.5	26.5
Bank borrowings	341.5	333.9	59.8	47.8
2006/16 Convertible loan stock	24.6	–	–	–
	366.1	333.9	59.8	47.8

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

	Fair value adjustment £m	% of total
1999	3.7	33
2000	3.1	28
2001	2.1	19
2002	1.4	12
2003	0.5	4
2004-2016	0.5	4
Total	11.3	100

Fixed and swapped interest rates at 25th December 1998 applied to borrowings of £287.8m (1997: £197.6m) with the balance of £78.3m (1997: £64.2m) being at variable interest rates based on three month LIBOR. The weighted average interest rate cost for fixed and swapped borrowings at 25th December 1998, was 7.9% (1997: 8.4%) and for variable rates 7.5% (1997: 8.5%).

The weighted average interest rate cost of total borrowings at the year end has reduced to 7.8% compared to 8.4% at the end of 1997. The weighted average period for which interest rates are fixed on Group bank borrowings is 3.39 years and 4.58 years including CULS.

Debt valuation

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

Table 1 shows the market value of fixed rate debt instruments, and reflects the difference between the interest rate yield curve as at 25th December 1998 and the rates historically committed; namely the fair value adjustment.

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

The fair value adjustment relating to fixed rate debt instruments in place at 25th December 1998 will be virtually eliminated by the end of 2002.

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

Debt maturity

Table 2 shows the maturity profile of Group borrowings and undrawn secured facilities at 25th December 1998. Over 97% (1997: 87%) of bank borrowings had the benefit of "evergreen" arrangements which we expect will extend maturity dates beyond the earliest repayment date shown. The evergreen arrangements provide a minimum of two years' notice of repayment.

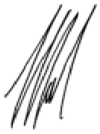
Gearing

Net debt to capital employed has fallen to 107% at the year end (1997: 116%) and reduces to 93% (1997: 94%) assuming the conversion of the loan stock to equity.

Rental income as a ratio to net interest payable including capitalised interest for 1998 is unchanged at 1.6 times when calculated excluding non-recurring income. The margin by which rental income exceeds total net interest payable has increased to over £20m in 1998 from £11m in 1997.

Financial Statements Review

Profit on revenue activities has increased from £6.1m to £11.5m reflecting the substantial increase in the portfolio and capital base during 1997 and 1998.



Lynda Coral Financial Director
26th February 1999

Accounting developments

A number of new Financial Reporting Standards ("FRS") are applicable or adopted voluntarily for the first time this year that affect the presentation, classification and disclosures in the financial statements. The Group has adopted FRS 9 (Associates and Joint Ventures), FRS 10 (Goodwill), FRS 11 (Impairment), FRS 12 (Provisions), FRS 13 (Financial Instruments) and FRS 14 (Earnings per share). Any resulting changes in the financial statements have no impact on profit or net assets attributable to shareholders for the current or prior years.

Profit and loss account

Results for the year

Profit on revenue activities has increased from £6.1m to £11.5m reflecting the substantial increase in the portfolio and capital base during 1997 and 1998. Profit before tax has increased to £11.5m. Profit last year of £11.1m included gains of almost £5m on the excess of sale proceeds of investment properties and investments over carrying value.

Profit on revenue activities in the second half of the year is £7.9m compared to £3.6m reported for the first half. The second half includes non-recurring surrender premiums and provision for performance bonuses for the whole year, both of which are referred to below.

Rental income

Group rental income increased by 55% to £44.9m as shown in table 1. Also shown is the effect of the changes during 1998 on gross passing rent to arrive at £47.0m at the year end.

The gross passing rent at the end of 1998 does not include additional rent of £2.2m (1997: £1.4m) under agreements for lease executed to date. Surrender premiums of £4.5m as shown in table 1 include £3m in respect of a retail warehouse unit that has been relet at a higher rent and £500,000 from the former tenant of a trading property sold at a profit.

Net property costs

The increase of £1.3m compared to the previous year is partly due to marketing, promotional and void costs relating to acquisitions in the last two years, particularly the shopping centres acquired in June 1997 and April 1998. Higher ground rents in 1998 of £918,000 include eight months for The Pallasades with the full year effect of three centres acquired during 1997 offset by the feuhold purchase of Howgate in February 1998. Professional fees relating to rent reviews and lettings in the year incurred a cost of approximately £1m as compared to £488,000 in the previous year.

Administrative expenses

General administrative costs reflect the support required for the substantial increase in the property portfolio since 1996 and include the effect for a full year of the retail and leisure park team following the purchase of Lanham PLC in April 1997. Underlying administrative costs represent under 0.75% of the total property portfolio. Performance related bonus payments to executive directors and employees, including an allocation for the profit sharing scheme, totalled £1.4m (1997: £1.2m).

Net interest payable

Net interest costs have increased by £6.5m during the year reflecting the financing of acquisitions by additional bank debt. Approximately £850,000 (1997: £900,000) of interest has been capitalised during the year, principally in relation to industrial properties under construction (£396,000) and development projects including Blythswood (£195,000) and the forward sold scheme at Croydon (£231,000).

Table 1

	1998 Rental income £m	1998 Rental level £m
Year ended 25th December 1997	28.9	33.6
Full year effect of acquisitions and disposals in 1997	3.4	–
Properties acquired in 1998	8.0	14.0
Properties sold in 1998	(2.9)	(3.9)
Net new lettings	2.1	2.1
Leases surrendered	(0.2)	(0.4)
Surrender premiums	4.5	–
Rent increases including reviews	1.1	1.6
Year ended 25th December 1998	44.9	47.0

Table 2

	Investment properties £m	Properties under construction £m	Current property assets £m	Total £m
At 25th December 1997	438.0	–	7.8	445.8
Acquisitions	179.4	–	18.5	197.9
Refurbishments and development	22.3	5.4	5.3	33.0
Disposals	(40.4)	–	(7.2)	(47.6)
Revaluation surplus	47.6	2.3	–	49.9
At 25th December 1998	646.9	7.7	24.4	679.0

Table 3

	Investment £m	Debtors after 1 year £m	1998 Total £m	1997 Total £m
Associates	3.4	–	3.4	3.3
Joint ventures	2.3	3.9	6.2	7.7
	5.7	3.9	9.6	11.0

Taxation

The taxation charge for the year has been substantially reduced to 3% of profit before tax by capital allowances. The Group has deferred the payment of its 1998 interim dividend until 7th April 1999 to take advantage of the abolition of Advance Corporation Tax. At the end of 1998 there is approximately £200,000 (1997: £200,000) remaining of advance corporation tax previously written off, the tax written down value of assets subject to capital allowance claims is estimated at approximately £28m (1997: £19m) and unutilised losses carried forward are approximately £4.3m (£6.5m).

Earnings and dividends per share

Earnings per share on revenue activities increased substantially from 8.4p to 12.2p. Although profit attributable to shareholders increased from £10.1m in 1997 to £11.1m this year earnings per share were reduced from 15.4p to 12.1p as a result of applying the weighting of shares issued in 1997 and 1998. The total dividend proposed of 4.25p per share is over one and a half times covered by profit on revenue activities after deducting non-recurring lease surrender premiums.

Balance sheet

Property assets

Table 2 summaries the movement in the Group's property portfolio during the year including properties held for disposal and under development.

Associates and joint ventures

Table 3 shows the movement during 1998 in the Group's total investment in joint ventures and associates.

In accordance with FRS 9, the Sports Village Milton Keynes Partnership is treated as a joint arrangement that is not an entity and the Group's financial statements include its share of assets, liabilities and cash flows. Since the year end investment in associates has reduced as a result of buying in the industrial properties owned in partnership with Phillips & Drew Fund Management Limited.

Minority interests

Minority interests at the end of 1998 include a £2m participation by Peter Taylor and his associates in Easter Capital Investment Holdings.

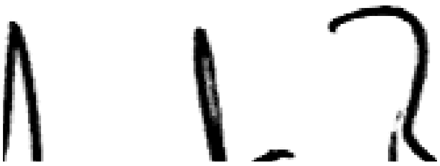
Year 2000

As reported with the interim results, a programme is underway to address the issues arising from the Millennium to ensure that date sensitive systems using two digits can recognise "00" as the Year 2000. The Group has reviewed its exposure to the risks arising from the "Millennium Bug" and is progressing any action required to ensure all our computer hardware and software is Year 2000 compliant.

The Group has substantially completed detailed audit of systems that use microchips within our properties with the assistance of external consultants. The aim is to ensure that any problem the Year 2000 might otherwise create in the provision of services is identified and rectified. This includes liaison with our tenants to inform them of our action plan to deal with Year 2000 issues and ensure that they are taking appropriate action in respect of their equipment particularly where it is interfaced to our systems for common use.

As the effort associated with the programme largely consists of the diversion of existing internal resources, the costs have not been separately identified and are written-off to the profit and loss account as they are incurred. The costs of modifications and remedial works specifically relating to the Year 2000 compliance are expected to be minimal.

Directors



Martin Barber

Roger Boyland

Kenneth Ford

Xavier Pullen

Lynda Coral

Andrew Lewis-Pratt

Executive Directors

Martin Barber
Chairman, age 54
Martin Barber has been involved in commercial property as a developer and investor for over 30 years. He was a founder Director of the Company in 1979. He is Chairman of CenterPoint Properties Trust, a real estate investment trust, listed on the New York Stock Exchange and formerly a subsidiary of Capital and Regional. He is Non-executive Chairman of PRICOA Property Investment Management Ltd, a wholly owned subsidiary of The Prudential Insurance Company of America.

Xavier Pullen
Joint Managing Director, age 47
Xavier Pullen has been active in the property industry for over 30 years and was a founder Director of the Company in 1979. He has overall responsibility for investment and development activities.

Roger Boyland FCA
Joint Managing Director, age 54
Roger Boyland is a chartered accountant and has been involved in commercial property for 24 years. He was a founder Director of the Company in 1979. He has responsibility for the Company's financing strategy, including banking and corporate finance.

Lynda Coral BSC FCA
Financial Director and
Company Secretary, age 37
Lynda Coral has been a chartered accountant for 14 years. She was appointed as Company Secretary in 1989 and a Director in 1990. Her responsibilities include accounting, tax and co-ordination of management and external reporting.

Kenneth Ford BSC FRICS
Executive Director, age 45
Ken Ford has been involved in commercial property for 25 years. He was appointed a Director of the Company in 1997 and is responsible for the shopping centre portfolio.

Andrew Lewis-Pratt BSC ARICS
Executive Director, age 41
Andrew Lewis-Pratt has over 16 years experience within the out-of-town retail and leisure sector. He was appointed as a Director of the Company in 1997 and is responsible for the retail and leisure park portfolio.

David Cherry

Peter Duffy

Viscount Chandos

Martin Gruselle

Non-executive Directors

David Cherry BSC FRICS†#, age 61

David Cherry is a 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.

Viscount Chandos#, age 46

Tom Chandos is a former investment banker and currently Development Director of the broadband interactive television company, Video Networks Limited. He was appointed as a Director of the Company in 1993. He is also Chairman of Lopex PLC and of MediaKey plc. He is a non-executive Director of a number of private companies

Peter Duffy†, age 62

Peter Duffy was appointed as a Director of the Company in 1995. He was previously Managing Director of TR Property Investment Trust PLC. He is also a Director of European City Estates N.V. and Chairman of Seafield plc.

Martin Gruselle FCA†#, age 61

Martin Gruselle is a chartered accountant with wide experience in corporate finance. He was appointed as a Director of the Company in 1989 and acts as Chairman of the Remuneration and Audit Committees. He is also a non-executive Director of Scarborough Property Company plc.

†Member of Audit Committee

#Member of Remuneration Committee

Ten Year Record

for the year ended 25th December 1989 to 25th December 1998

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
No of shares in issue (million)	98.255	76.399	45.595	45.595	45.595	30.296	17.239	17.239	12.144	12.044
Diluted no. of shares in issue (million)	110.667	88.668	58.181							
Net assets per share‡	320.6p	††272.0p	223.1p	186.2p	183.5p	163.8p	#157.8p	153.5p	†163.3p	201.7p
Net assets per share growth	17.9%	††27.6%	19.8%	1.5%	12.0%	#12.2%	2.8%	†3.6%	(19.1)%	22.1%
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Equity shareholders' funds	330,816	217,299	104,701	84,882	83,654	49,636	27,206	26,454	19,825	24,397
Minority interests	2,101	933	2,458	1,431	719	797	10,426	7,545	5,619	5,522
Non-equity funding by joint arrangement partners	3,250	–	–	–	–	–	–	–	–	–
Capital employed	336,167	218,232	107,159	86,313	84,373	50,433	37,632	33,999	25,444	29,919
Borrowings	340,926	237,036	143,872	76,674	50,129	39,051	49,937	35,568	31,088	25,025
Cash at bank	5,476	9,229	6,261	2,431	2,259	2,693	4,206	9,978	598	3,210
Net bank debt	335,450	227,807	137,611	74,243	47,870	36,358	45,731	25,590	30,490	21,815
Convertible loan stock	23,950	23,840	25,108	–	–	–	–	–	–	–
Net debt	359,400	251,647	162,719	74,243	47,870	36,358	45,731	25,590	30,490	21,815
Net debt/capital employed‡	93.3%	94.1%	104.3%	86.0%	56.7%	72.1%	121.5%	75.3%	119.8%	72.9%
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Rental income	44,910	28,857	17,834	10,129	8,172	8,896	6,939	5,245	4,618	3,571
Net rental income	38,507	23,728	14,158	8,040	6,556	7,487	6,028	4,659	3,966	3,390
Net interest payable****	24,057	16,788	9,153	4,552	3,180	4,460	3,838	3,086	2,885	1,430
Profit/(loss) on ordinary activities before taxation***	11,481	11,083	6,051	4,743	4,145	1,170	422	*(533)	351	*474
Earnings per share**	12.1p	15.4p	11.9p	8.7p	8.6p	2.8p	0.4p	*(4.2p)	0.9p	*1.0p
Dividend per share	4.25p	3.5p	3.0p	2.5p	2.1p	1.5p	1.1p	1.0p	0.9p	0.9p

†† A Placing and Offer in May 1997 of 28,159,526 new Ordinary shares at 215p resulted in a dilution of 1997 diluted net assets per share to 213.1p. The growth in net assets per share for 1998 is calculated after adjusting for the effect of this dilution on 1997.

If adjusted to take into account the effect of the issue of 13,057,427 new Ordinary shares of 10p each during 1993 to raise £17,025,000 net of expenses 1992 net assets per share are reduced to 146.0p. The growth in net assets per share for 1993 is calculated after adjusting for the effect of this dilution on 1992.

† A Placing and Offer in May 1991 of 5,070,295 new Ordinary shares at 120p resulted in a dilution of 1990 net assets per share to 148.1p. The growth in net assets per share for 1991 is calculated after adjusting for the effect of this dilution on 1990.

‡ Assuming conversion of the convertible loan stock to equity.

* As adjusted for Financial Reporting Standard No. 3 where necessary.

** Earnings per share for prior years have been adjusted to reflect the one for two Rights Issue in April 1994 and the two for seven rights issue in April 1998.

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

****Excludes share of net interest payable of Joint ventures and associates.

Report on Directors' Remuneration and Interests

Remuneration Committee

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

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

Remuneration policy

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

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

Basic salaries and benefits are reviewed annually. Following a review by the Committee at the end of 1997, the basic salaries of the executive directors were increased from 1st January 1998. The Company's contributions to the personal pension schemes of M. Barber, R. Boyland and X. Pullen are 20% of basic salary, those of K. Ford, and A. Lewis-Pratt are 15% and that of L. Coral is 10%.

In 1996, the Committee established guidelines for determining the level of discretionary bonus payable to the executive directors, linking outperformance of growth in net asset value per share to predetermined percentages of pre-tax profits. In 1998 the Committee introduced a further guideline linking outperformance of growth in net asset value per share to predetermined percentages of the increase in net shareholders funds generated in the year. The Committee currently uses the Monthly Index of All Properties Capital Value published by the Investment Property Databank as a benchmark against which to compare growth in net asset value per share. If the maximum level of outperformance in either case is achieved, the higher of 10% of pre-tax, pre-bonus profits or 2.2% of the increase in net shareholders' funds may be allocated as discretionary bonus. The Committee will not necessarily allocate the whole of the amount determined under the criteria in any year.

In 1998, net asset value per share has increased by 17.9% (year on year) compared with an increase of 4.2% in the benchmark index; this level of performance generates a discretionary bonus of 8.5% of profits. The Committee has decided to allocate £820,000 of discretionary bonus for 1998 (7.2% of pre-tax, pre-bonus profits).

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

Each of the executive directors has a service agreement which can be terminated on one year's notice by either party.

The terms of the existing service agreements do not allow the executive directors to engage in any other business outside the Company except where prior written consent from the Committee is obtained.

The fees of the non-executive directors are determined annually by the Board acting on the recommendations of the Executive Committee within the limits set by the Company's Memorandum and Articles of Association and using external market research for guidance. The formal appointments of Tom Chandos and Martin Gruselle were renewed on 1st January 1997 and that of Peter Duffy on 26th May 1998 in each case for a further three year period. David Cherry was given a formal letter of appointment for a three year term from 4th April 1997. They do not receive share options or any other forms of remuneration from the Company.

Remuneration

The remuneration of the directors is analysed below:

	Salary and fees		Discretionary bonus		Pension contributions		Other benefits†		Total	
	1998 £	1997 £	1998 £	1997 £	1998 £	1997 £	1998 £	1997 £	1998 £	1997 £
Executives										
M. Barber	190,000	170,000	170,000	170,000	38,000	34,000	20,325	18,622	418,325	392,622
R. Boyland	150,000	135,000	140,000	130,000	30,000	27,000	19,846	17,662	339,846	309,662
X. Pullen	150,000	135,000	140,000	130,000	30,000	27,000	16,257	17,504	336,257	309,504
L. Coral	110,000	100,000	100,000	90,000	11,000	10,000	13,953	13,548	234,953	213,548
K. Ford	145,000	82,500	135,000	130,000	21,750	12,375	9,813	5,698	311,563	230,573
A. Lewis-Pratt	145,000	93,750	135,000	115,000	21,750	14,063	19,605	10,646	321,355	233,459
	890,000	716,250	820,000	765,000	152,500	124,438	99,799	83,680	1,962,299	1,689,368
Non-executives										
Viscount Chandos*	26,875	20,000							26,875	20,000
D. Cherry	20,000	15,000							20,000	15,000
P. Duffy	20,000	20,000							20,000	20,000
M. Gruselle	30,000	30,000							30,000	30,000
	96,875	85,000							96,875	85,000
Total	986,875	801,250	820,000	765,000	152,500	124,438	99,799	83,680	2,059,174	1,774,368

* Including fees of £6,875 received from subsidiary companies. Viscount Chandos was appointed as a non-executive director of Easter Holdings Limited on 3rd March 1998 and received fees of £6,875 in the year from the joint venture company that are not included in the figures above.

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

Directors' interests

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

	Ordinary shares of 10p each at 25th December		6.75% convertible subordinated unsecured loan stock 2006/16 at 25th December	
	1998 Shares	1997 Shares	1998 £	1997 £
M. Barber	2,343,701	2,288,992	35,394	35,394
X. Pullen	981,060	907,303	23,693	23,693
R. Boyland	504,000	500,000	13,000	13,000
L. Coral	1,335	1,039	25	25
K. Ford	368,998	356,034	–	–
A. Lewis-Pratt*	286,634	681,035	–	–
M. Gruselle	50,653	46,136	943	943
Viscount Chandos	7,926	6,698	3,313	3,313
P. Duffy	–	–	–	–
D. Cherry	3,363	2,225	–	–
	4,547,670	4,789,462	76,368	76,368

* A. Lewis-Pratt is only himself beneficially interested in 110,668 Ordinary shares of 10p each.

There have been no changes to the directors' interests since 25th December 1998, except D. Cherry who purchased an additional 775 Ordinary shares of 10p each on 24th February 1999 and X. Pullen who purchased 20,000 Ordinary shares of 10p each on 25th February 1999.

Share incentives

From time to time the Committee has recommended to the Board that options should be granted to executive directors and other employees under the Executive Share Option Schemes introduced in 1988. The final options under this Scheme were granted on 18th June 1997.

New Discretionary Share Option Schemes to replace the share option schemes which expired in May 1998 were approved by shareholders at the Annual General Meeting held on 7th May 1998.

In 1998 options were granted over a total of 1,264,790 Ordinary shares under the 1998 Schemes, as follows:

Date	Exercise price	Directors	Executives	Total
15th May 1998	279.5p	650,000	506,500	1,156,500
22nd May 1998	286.5p	–	83,290	83,290
28th September 1998	196.5p	–	25,000	25,000
		650,000	614,790	1,264,790

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

				Options over Ordinary shares of 10p each			
Director	Date granted	Exercise conditions met	Exercise price	At beginning of year	1998 adjustment	Issued in year	At end of year
M. Barber	22nd December 1993	Yes	168.9p	135,302	1,576	–	136,878
	28th October 1994	Yes	*131.4p	103,062	1,201	–	104,263
	18th June 1997	Not yet	*226.4p	50,000	582	–	50,582
				288,364	3,359	–	291,723
R. Boyland	22nd December 1993	Yes	*168.9p	135,302	1,576	–	136,878
	28th October 1994	Yes	*131.4p	103,062	1,201	–	104,263
	18th June 1997	Not yet	*226.4p	50,000	582	–	50,582
	15th May 1998	Not yet	279.5p	–	–	100,000	100,000
				288,364	3,359	100,000	391,723
X. Pullen	22nd December 1993	Yes	*168.9p	135,302	1,576	–	136,878
	28th October 1994	Yes	*131.4p	103,062	1,201	–	104,263
	18th June 1997	Not yet	*226.4p	50,000	582	–	50,582
	15th May 1998	Not yet	279.5p	–	–	100,000	100,000
				288,364	3,359	100,000	391,723
L. Coral	22nd December 1993	Yes	*168.9p	49,602	578	–	50,180
	28th October 1994	Yes	*131.4p	25,765	301	–	26,066
	21st October 1996	Yes	*193.2p	77,296	901	–	78,197
	18th June 1997	Not yet	*226.4p	50,000	582	–	50,582
	15th May 1998	Not yet	279.5p	–	–	100,000	100,000
				202,663	2,362	100,000	305,025
K. Ford	18th June 1997	Not yet	*226.4p	150,000	1,747	–	151,747
	15th May 1998	Not yet	279.5p	–	–	175,000	175,000
				150,000	1,747	175,000	326,747
A. Lewis-Pratt	18th June 1997	Not yet	*226.4p	150,000	1,747	–	151,747
	15th May 1998	Not yet	279.5p	–	–	175,000	175,000
				150,000	1,747	175,000	326,747

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

Share incentives continued

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

	M. Barber £	R. Boyland £	X. Pullen £	L. Coral £	K. Ford £	A. Lewis-Pratt £
Options outstanding at the year end:						
Total subscription price	482,748	762,206	762,206	664,099	832,680	832,680
Potential profit on exercise of options*:						
options where exercise condition has been met	153,882	153,882	153,882	64,288	–	–
options where exercise condition has yet to be met	–	–	–	–	–	–
Total at year end	153,882	153,882	153,882	64,288	–	–

* Using a share price of 216.5p as at 24th February 1999.

The Company's share price was 167.5p on 25th December 1998. During the year the share price ranged from 318p to 154.5p.

There has been no change in directors' interests in options since 25th December 1998, except for K. Ford, A. Lewis-Pratt and L. Coral who were granted 75,000, 75,000 and 25,000 unapproved options respectively, on 23rd February 1999 at an exercise price of 191.5p.

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

All the options granted require the achievement of growth in net assets per share above predefined targets. Options granted in 1993 and subsequent years can only be exercised if growth in fully diluted net asset value per share during any three year period prior to the expiry date of the option exceeds the growth in the Monthly Index of Capital Values for All Properties published by the Investment Property Databank for the same period. An additional exercise criteria for options granted in 1998 requires the total return for shareholders over any three year period to exceed the increase over the same period in the Index of Total Returns for the Property Sector as shown in the FT-SE Actuaries Indices published in the Financial Times.

A total of 27,684 shares at a cost of £78,484 were issued to eligible employees in April 1998 under the Capital and Regional Properties plc approved profit sharing scheme introduced in 1997. The Committee has set aside the sum of £149,000 out of the profits of the current year to be allocated under this scheme.

Martin Gruselle Chairman
Remuneration Committee
26th February 1999

Corporate Governance Statement

Introduction
In June 1998 the Combined Code ("the Code") was issued in final form by the Committee on Corporate Governance. To demonstrate its support for the new corporate governance regime, the Board has determined to make full disclosure in this report, notwithstanding that it is not required by the Listing Rules of the London Stock Exchange to provide a disclosure statement on how it applies the principles in the Code and whether it has complied with the Code provisions during the period, as its accounting period ends before 31st December 1998.

Governance: principles and procedures
At a Board meeting held on 24th September 1998, the Board formally adopted the Principles of Good Governance set out in the Code. The Company's governance policies already in place matched closely those set out in the Code. Details of how the Company has applied the Code, after making changes as described in the Compliance statement set out on page 31, are as follows for each of the Code's four distinct areas:

Directors
The Company is controlled through the Board of Directors which consists of six executive and four non-executive directors, thus providing an appropriate balance of power and authority. The non-executive directors are all independent of the Group.

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

Details of all the non-executive directors are set out on page 23. Martin Gruselle has been nominated as the senior independent director as required by the Code.

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

All members of the Board are subject to the re-election provisions of the Articles which requires them to offer themselves for re-election at least once every three years. Any proposal to appoint new directors to the Board is discussed at a full Board Meeting and all Board members are given an opportunity to meet the individual concerned prior to any formal decision being taken. As the Board is small, it is considered inappropriate to establish a nomination committee.

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

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

The fees of the non-executive directors are reviewed by the Board at regular intervals. The statement of remuneration policy and details of each director's remuneration is set out in the report on Directors Remuneration and Interests on pages 25 to 28.

Shareholder relations

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

Accountability and audit

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

Statement on internal financial control

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

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

Going concern

In compliance with the Listing Rules of the London Stock Exchange the directors can report that based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

Audit Committee

The Company's Audit Committee, consisting of not less than three non-executive directors, has written terms of reference under which it is responsible for the relationship with the Group's auditors and for reviewing in depth the Company's financial reports, circulars to shareholders and internal controls. The terms of reference were reviewed and updated in 1999 to ensure the Audit Committee's duties adequately cover all areas identified by the Code including review of cost effectiveness and the 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 1998 the Committee met twice.

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 the Group as at the end of the financial year and of the profit and loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonably and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 25th December 1998. The directors also confirm that applicable accounting standards and the Companies Act 1985 have been followed with the exception of the departures disclosed and explained in note 1 to the financial statements and that the financial statements have been prepared on the going concern basis.

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

Compliance statement

At a Board meeting held on 16th December 1998 the Board adopted a paper prepared by a sub-committee formed to review the Company's compliance with the Code provisions during the accounting period. This review commenced in August 1998 and initially identified action required to ensure that the Company complied with certain provisions of the Code including amendments to the Articles of Association that were adopted by resolution of the shareholders on 4th November 1998. Changes to the Company's corporate governance procedures implemented during the year to comply with specified Code provisions were as follows:

A6.1 In November 1998 new letters of appointment were provided to the non-executive directors confirming their appointment for a term of three years subject to re-election by shareholders.

A1.3 The new appointment letters for non-executive directors confirmed the procedure agreed by the Board for directors in furtherance of their duties to take independent professional advice if necessary, at the Company's expense. A clause to the same effect was added to the service agreements of the executive directors by variation dated 6th November 1998.

A2.1 Following discussion between the non-executive directors at a Board meeting on 24th September 1998 Martin Gruselle was formally identified as the senior non-executive director although, as chairman of both Audit and Remuneration Committees, he had effectively already been carrying out this role.

A6.2 The new Articles of Association clarified the position on re-election of directors to ensure such office is not retained for more than three years without re-election by shareholder resolution.

B3.5 At a Board meeting held on 16th December 1998 it was agreed that approval of the remuneration policy as set out in the annual report to shareholders would not be included on the agenda of the 1999 Annual General Meeting. This conclusion and the adoption of an annual review of the circumstances were noted in the minutes of the meeting.

C2.4 The new Articles of Association require 20 working days' notice to be given for Annual General Meetings.

In the current year, the terms of reference of the Audit Committee have been reviewed and updated to comply with Code provision D3.2 and the Audit Committee has reviewed the need for an internal audit function as required by Code provision D2.2.

As permitted by the London Stock Exchange, the Company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

Other than disclosed above, throughout the year ended 25th December 1998, the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange. The exceptions arise from the fact that the London Stock Exchange Listing Rules incorporating the new Code provisions were published in June 1998 whilst the compliance statement relates to the whole year ended 25th December 1998.

By Order of the Board

L. Coral Secretary
26th February 1999

Auditors' Report

to the members of Capital and Regional Properties plc

We have audited the financial statements on pages 33 to 55 which have been prepared under the accounting policies set out on pages 38 and 39.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 30 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on page 31 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Group's internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 25th December 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche Chartered Accountants and Registered Auditors
Hill House, 1 Little New Street, London EC4A 3TR
26th February 1999

Consolidated Profit and Loss Account

for the year ended 25th December 1998

	Notes	1998 £000	1997 £000
Turnover: group rental income and share of joint ventures' turnover	2	52,732	33,275
Less: share of joint ventures' turnover	18	7,822	4,418
Group rental income		44,910	28,857
Net property costs		(6,403)	(5,129)
Net rental income		38,507	23,728
Profit on the sale of trading and development properties	3	517	1,326
		39,024	25,054
Administrative expenses	4	(6,259)	(4,547)
		32,765	20,507
Other operating income	5	669	449
Group operating profit		33,434	20,956
Share of operating profit in joint ventures	18	789	1,639
Share of operating profit in associates	19	684	495
		34,907	23,090
Income from listed investments		1,095	1,039
Interest receivable and similar income	6	807	1,043
Interest payable and similar charges	7	(25,290)	(19,072)
Profit on revenue activities		11,519	6,100
(Loss)/profit on sale of investment properties	3	(38)	4,828
Profit on sale of investments		–	155
Profit on ordinary activities before taxation	8	11,481	11,083
Taxation	11	(347)	(917)
Profit on ordinary activities after taxation		11,134	10,166
Equity minority interests	29	(42)	(70)
Profit attributable to the shareholders of the Company	12	11,092	10,096
Equity dividends paid and payable	13	(4,176)	(2,674)
Profit retained in the year	28	6,916	7,422
Earnings per share	14	12.1p	15.4p
Earnings per share – diluted	14	12.1p	14.9p
Earnings per share on revenue activities	14	12.2p	8.4p

The results of the Group for the year related entirely to continuing operations within the meaning of Financial Reporting Standard No. 3. 1997 comparative amounts have been restated in accordance with Financial Reporting Standard No. 9 and Financial Reporting Standard No. 14.

The notes on pages 38 to 55 form part of these financial statements.

Notes of Historical Cost Profits and Losses

for the year ended 25th December 1998

	1998 £000	1997 £000
Reported profit on ordinary activities before taxation	11,481	11,083
Realisation of property revaluation surplus of previous years	1,313	2,276
Realisation of property revaluation (deficit)/surplus of previous years in joint ventures	(54)	562
Historical cost profit on ordinary activities before taxation	12,740	13,921
Historical cost profit for year retained after taxation, minority interests and dividends	8,010	10,037

Statement of Total Recognised Gains and Losses

for the year ended 25th December 1998

	Notes	Six months to 24th June 1998 £000	Six months to 25th December 1998 £000	Total 1998 £000	Total 1997 £000
Share of unrealised surplus on valuation of investment properties	28	20,422	28,272	48,694	42,546
Share of unrealised surplus/(deficit) on valuation of properties in joint ventures	18	–	87	87	(288)
Share of unrealised surplus/(deficit) on valuation of properties in associates	19	168	(55)	113	650
Revaluation (deficit)/surplus on other investments	17	(1,383)	404	(979)	2,184
Tax on revaluation surpluses realised in year		–	(165)	(165)	(223)
Exchange differences		–	–	–	8
		19,207	28,543	47,750	44,877
Profit attributable to shareholders		3,367	7,725	11,092	10,096
Total recognised gains and losses relating to the year		22,574	36,268	58,842	54,973

1997 comparative amounts have been restated in accordance with Financial Reporting No. 9.

Reconciliation of Movements in Shareholders' Funds

for the year ended 25th December 1998

	Notes	1998 £000	1997 £000
Profit for the year attributable to shareholders of the Company		11,092	10,096
Equity dividends paid and payable	13	(4,176)	(2,674)
Profit retained in the year		6,916	7,422
Share capital and share premium issued in year (net of expenses)		59,128	63,004
Goodwill written off	28	(277)	(2,705)
Other recognised gains and losses relating to year (see above)		47,750	44,877
Net addition to shareholders' funds		113,517	112,598
Opening shareholders' funds		217,299	104,701
Closing shareholders' funds		330,816	217,299

The notes on pages 38 to 55 form part of these financial statements.

Consolidated Balance Sheet

as at 25th December 1998

	Notes	1998 £000	1998 £000	1997 £000	1997 £000
Fixed assets					
Property assets	15		654,606		438,044
Other fixed assets	16		844		1,025
			655,450		439,069
Other investments	17		22,000		20,651
Investment in joint ventures	18				
Share of gross assets			7,715		15,425
Share of gross liabilities			(5,448)		(10,942)
			2,267		4,483
Investment in associates	19		3,446		3,304
			683,163		467,507
Current assets					
Property assets	20	24,412		7,846	
Debtors:					
amounts falling due after more than one year	21	3,914		800	
amounts falling due within one year	21	18,802		24,656	
Cash at bank and in hand	22	5,476		9,229	
		52,604		42,531	
Creditors: amounts falling due within one year	23	(35,120)		(53,391)	
Net current assets/(liabilities)			17,484		(10,860)
Total assets less current liabilities			700,647		456,647
Creditors: amounts falling due after more than one year					
(including convertible unsecured loan stock)	24		(364,480)		(238,415)
Net assets			336,167		218,232
Capital and reserves					
Called up share capital	27		9,826		7,640
Share premium account	28		161,863		104,921
Revaluation reserve	28		131,553		84,897
Other reserves	28		591		591
Profit and loss account	28		26,983		19,250
Equity shareholders' funds			330,816		217,299
Equity minority interests	29		2,101		933
Non-Equity funding by joint arrangement partners	30		3,250		–
Capital employed			336,167		218,232
Net assets per share adjusted for minority interests and non-equity funding	31		336.7p		284.4p
Net assets per share adjusted for minority interests and non-equity funding – diluted	31		320.6p		272.0p

1997 comparative amounts have been restated in accordance with Financial Reporting Standard No. 9.

The financial statements were approved by the board of directors and signed on their behalf on 26th February 1999 by:

M. Barber
L. Coral

The notes on pages 38 to 55 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 25th December 1998

	Notes	1998 £000	1998 £000	1997 £000	1997 £000
Net cash inflow from operating activities	36(a)		31,303		18,476
Dividends received from joint ventures			3,526		820
Dividends received from associates			660		361
Returns on investments and servicing of finance					
Dividends received from listed investments		935		1,039	
Interest received		811		326	
Interest paid		(24,065)		(17,396)	
Loan arrangement costs		(535)		–	
			(22,854)		(16,031)
			12,635		3,626
Taxation					
UK corporation tax paid		(315)		–	
UK advance corporation tax paid		(606)		(338)	
UK income tax deducted at source		(90)		(95)	
UK income tax recovered		166		–	
USA tax paid		(35)		(172)	
USA withholding tax recovered		–		82	
			(880)		(523)
Net operating cash flow			11,755		3,103
Capital expenditure and financial investment					
Payments for:					
Additions to investment properties		(202,465)		(209,578)	
Additions to properties held as current assets		(27,759)		(6,850)	
Additions to other tangible assets		(738)		(604)	
Additions to listed investments		(2,328)		–	
Purchase of minority interest		–		(312)	
Investment in associate		(270)		(30)	
Loans to joint ventures		(5,109)		(2,517)	
Receipts from:					
Sale of investment properties		40,371		51,331	
Sale of properties held as current assets		17,671		18,719	
Sale of other tangible assets		173		63	
Sale of investments		–		155	
Repayment of loans from associates		–		274	
Repayment of loan by joint venture		4,250		4,850	
			(176,204)		(144,499)
			(164,449)		(141,396)
Acquisitions and disposals					
Additions to joint ventures		(725)		(450)	
Acquisition of subsidiary		–		(887)	
			(725)		(1,337)
			(165,174)		(142,733)
Equity dividends paid			(1,910)		(1,676)
Cash outflow before financing			(167,084)		(144,409)
Financing					
Issue of ordinary share capital		61,198		61,215	
Expenses of share issue		(2,070)		(2,679)	
Bank loans received		200,934		161,182	
Bank loans repaid		(96,731)		(72,341)	
			163,331		147,377
(Decrease)/increase in cash	36(b)		(3,753)		2,968

1997 comparative amounts have been restated in accordance with Financial Reporting Standard No. 9.

The notes on pages 38 to 55 form part of these financial statements.

Company Balance Sheet

as at 25th December 1998

	Notes	1998 £000	1998 £000	1997 £000	1997 £000
Fixed assets					
Other investments	17		39,018		31,897
Current assets					
Debtors:					
amounts falling due after more than one year	21	59,617		18,205	
amounts falling due within one year	21	463,385		301,974	
Cash at bank		408		736	
		523,410		320,915	
Creditors: amounts falling due within one year	23	(21,592)		(14,398)	
Net current assets			501,818		306,517
Total assets less current liabilities			540,836		338,414
Creditors					
Amounts falling due after more than one year (including convertible unsecured loan stock)	24		(329,044)		(198,382)
Net assets			211,792		140,032
Capital and reserves					
Called up share capital	27		9,826		7,640
Share premium account	28		161,923		104,981
Other reserves	28		591		591
Profit and loss account	28		39,452		26,820
Equity shareholders' funds			211,792		140,032

The financial statements were approved by the board of directors and signed on their behalf on 26th February 1999 by:

M. Barber
L. Coral

The notes on pages 38 to 55 form part of these financial statements.

Notes to the Financial Statements

for the year ended 25th December 1998

1. Accounting policies

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

The Group has adopted FRS9 (Associates and Joint Ventures), FRS10 (Goodwill), FRS11 (Impairment), FRS12 (Provisions), FRS13 (Financial Instruments) and FRS14 (Earnings per share). 1997 comparative figures have been restated accordingly.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Capital and Regional Properties plc and its consolidated entities and associated companies and joint ventures for the year ended 25th December 1998. Where necessary, the financial statements of subsidiaries are adjusted to conform with the Group's accounting policies. Subsidiaries have been consolidated under the acquisition method of accounting and the results of companies acquired during the year are included from the date of acquisition. Goodwill on consolidation represents the difference between the purchase consideration and the fair value of net assets acquired and is capitalised in the year in which it arises and is amortised over its useful economic life. This represents a change of accounting policy from previous years when the Group's policy was to write off goodwill on acquisition immediately to reserves. In accordance with the transitional arrangements of FRS10, goodwill previously written off to reserves has not been reinstated. Details of accumulated goodwill previously written off to reserves are detailed in note 28.

Joint ventures, associates and joint arrangements

In accordance with FRS9, joint ventures are included in the accounts under the gross equity method of accounting, and associates under the net equity method. Comparative figures have been restated accordingly. Where the Group has entered into a joint arrangement with a third party where no separate entity exists, the Group includes its proportion of assets, liabilities, income and expenditure within the Group figures. Where necessary the financial statements of associates and joint ventures are adjusted to conform with the Group's accounting policies.

Foreign currency

Balances in foreign undertakings and the results for the year are translated into sterling at the rate of exchange ruling at the balance sheet date of $1.67 to the £ (1997: $1.67 to the £).

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

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

Depreciation

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

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

Investment properties

Investment properties are included in the financial statements at valuation. The aggregate surplus or temporary deficit below cost arising from such valuations is transferred to a revaluation reserve. Deficits that are expected to be permanent are charged to the profit and loss account.

The Group has now adopted a policy of valuing investment properties twice a year. On realisation any gain or loss is calculated by reference to the carrying value at the last valuation 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.

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 at the earlier of it being fully let or six months from practical completion.

Refurbishment expenditure
Refurbishment expenditure in respect of major works is capitalised. Renovation and refurbishment expenditure of a revenue nature is written off as incurred.

Property transactions
Acquisitions and disposals are accounted for at the date of legal completion. Properties are transferred between categories at the estimated market value on the transfer date.

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

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

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

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

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

2. Segmental analysis

	Continuing operations 1998 £000	Purchase of The Pallasades 1998 £000	Total 1998 £000	Continuing operations 1997 £000
Turnover:				
Rental income	35,536	4,839	40,375	27,889
Surrender premiums	4,535	–	4,535	968
Share of joint ventures'	7,822	–	7,822	4,418
	47,893	4,839	52,732	33,275
Less: share of joint ventures'	7,822	–	7,822	4,418
Group rental income	40,071	4,839	44,910	28,857
Net property costs	(5,918)	(485)	(6,403)	(5,129)
Net rental income	34,153	4,354	38,507	23,728
Profit on the sale of trading and development properties	517	–	517	1,326
	34,670	4,354	39,024	25,054
Administrative expenses	(6,259)	–	(6,259)	(4,547)
	28,411	4,354	32,765	20,507
Other operating income	669	–	669	449
Group operating profit	29,080	4,354	33,434	20,956
Share of operating profit in joint ventures	789	–	789	1,639
Share of operating profit in associates	684	–	684	495
	30,553	4,354	34,907	23,090
Income from listed investments	1,095	–	1,095	1,039
Interest receivable and similar income	807	–	807	1,043
Interest payable and similar charges	(23,252)	(2,038)	(25,290)	(19,072)
Profit on revenue activities	9,203	2,316	11,519	6,100
Profit on ordinary activities before taxation	9,165	2,316	11,481	11,083
Net assets adjusted for minority interests	225,316	105,500	330,816	217,299

The above segmental analysis of financial statements originates from the UK except, £1,070,000 (1997: £1,039,000) of income from listed investments which originate from the US. There would be a corresponding adjustment to profit on revenue activities and profit on ordinary activities before taxation. Net assets adjusted for minority interests originating from the US are £20,445,000 (1997: £20,650,000).

The purchase of The Pallasades Shopping Centre is disclosed separately to provide additional information.

The Group operates in one class of business, property investment, development and management.

3. Property sales

	Fixed property assets		Current property assets		Total	
	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000
Net sale proceeds	40,371	51,331	7,126	25,308	47,497	76,639
Cost of sales	(39,141)	(44,267)	(6,609)	(23,982)	(45,750)	(68,249)
Historical cost profit	1,230	7,064	517	1,326	1,747	8,390
Revaluation surplus	1,313	2,276	–	–	1,313	2,276
	(83)	4,788	517	1,326	434	6,114
Share of joint ventures (see note 18)	45	40	–	–	45	40
(Loss)/profit recognised on sale of properties	(38)	4,828	517	1,326	479	6,154

4. Administrative expenses

	1998 £000	1997 £000
General administrative costs	5,249	3,925
Corporate and public company expenses	1,010	622
	6,259	4,547

5. Other operating income

	1998 £000	1997 £000
Fee income from joint ventures and associates	282	228
Other income	387	221
	669	449

6. Interest receivable and similar income

	1998 £000	1997 £000
Bank interest	233	276
Interest from joint ventures and associates	375	557
Other interest	119	36
	727	869
Share of joint ventures' (see note 18)	76	168
Share of associates' (see note 19)	4	6
	807	1,043

7. Interest payable and similar charges

	1998 £000	1997 £000
Bank loans and overdrafts wholly repayable within five years	23,888	16,770
Other loans	1,752	1,806
	25,640	18,576
Capitalised during the year	(856)	(919)
	24,784	17,657
Share of joint ventures' (see note 18)	237	1,119
Share of associates' (see note 19)	269	296
	25,290	19,072

The interest relating to bank loans, overdrafts and other loans wholly repayable within five years included £2,796,000 (1997: £4,530,000) in respect of loans repayable by instalments.

The interest charge includes £285,000 (1997: £212,000) of loan arrangement costs amortised during the year.

8. Profit on ordinary activities before taxation

	1998 £000	1997 £000
This is arrived at after charging:		
Loss on disposal of other fixed assets	113	31
Depreciation	569	342
Amortisation of goodwill	5	–
Auditors' remuneration (see below)	89	98
Directors' emoluments (see note 10)	2,059	1,774
Operating lease rentals for land and buildings	918	770
The Group's auditors also charged the following amounts for the provision of non-audit services during the year:		
General taxation advice	85	119
Fees in relation to share issues	92	144
Other	18	2
	195	265

The auditors' remuneration for the Group includes £6,000 (1997: £6,000) in respect of the parent company.

9. Employee information

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

	1998 £000	1997 £000
Staff costs (including directors) consist of:		
Salaries	2,564	1,886
Discretionary bonuses	1,107	1,077
Total salaries	3,671	2,963
Social security costs	380	306
Other pension costs	166	143
	4,217	3,412

The average number of persons employed by the Group during the year was 74 (1997: 72).

	Average number of employees during 1998	Average number of employees during 1997
Direct property services	20	22
Central management	54	50
	74	72

10. Directors' emoluments

	1998 £000	1997 £000
Emoluments of the highest paid director are as follows:		
Aggregate emoluments	380	359
Pension contributions to defined contribution scheme	38	34
	418	393
Gains made on exercise of share options	–	217
	418	610
Total emoluments of all directors are as follows:		
Aggregate emoluments	1,907	1,650
Pension contributions to defined contribution schemes	152	124
	2,059	1,774
Gains made on exercise of share options	–	805
	2,059	2,579

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

Details of directors' remuneration by director and details of their interests in the share capital of the Company are set out in the report on Directors' Remuneration and Interests on pages 25 to 28.

11. Taxation

	1998 £000	1997 £000
UK corporation tax:		
Current period	351	1,557
Prior periods	(130)	(105)
Advance corporation tax	1	(708)
Share of tax of joint ventures (see note 18)	125	77
Share of tax of associates (see note 19)	–	(16)
Income tax suffered	–	41
USA tax	–	71
	347	917

The tax liability for the year has been reduced due to the benefit of capital allowances.

12. Profit of the holding company

Of the profit for the year attributable to shareholders, a profit of £16,808,000 (1997: £12,568,000) has been dealt with in the accounts of the holding company and is made up as follows:

	1998 £000	1997 £000
Dividends from subsidiaries	36,550	24,700
Net operating costs including interest and tax	(19,742)	(12,132)
	16,808	12,568

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

13. Equity dividends paid and payable

	1998 £000	1997 £000
Interim of 1.5p per share payable on 7th April 1999 (1997: 1.0p per share)	1,474	764
Proposed final of 2.75p per share payable on 26th April 1999 (1997: 2.5p per share)	2,702	1,910
	4,176	2,674

14. Earnings per share

Earnings per share have been calculated on the weighted average number of Ordinary shares of 10p each in issue during the year 91,712,962 (1997: 65,402,068) and have been based on profit on ordinary activities after taxation and minority interests of £11,092,000 (1997: £10,096,000). The 1997 comparative weighted average number of shares in issue has been adjusted to reflect the bonus element of the 2 for 7 rights issue in 1998.

Diluted earnings per share have been calculated after allowing for the exercise of share options which have met the required exercise conditions and the full conversion of the Convertible Unsecured Loan Stock, if the effect on earnings per share is dilutive. The weighted average number of Ordinary shares of 10p each is 92,048,812 (1997: 78,790,488) and the relevant earnings are £11,092,000 (1997: £11,752,000).

Earnings per share on revenue activities exclude the loss on the sale of investment properties and investments, and associated tax charge and minority interest thereon, of £132,000 (1997 profit: £4,581,000).

15. Property assets

	Investment properties			
Group	Freehold properties £000	Leasehold properties £000	Properties under construction £000	Total £000
Cost or valuation:				
At beginning of year	278,122	159,922	–	438,044
Additions	94,218	107,537	5,397	207,152
Reclassification on purchase of freehold	80,918	(80,918)	–	–
Disposals	(39,215)	(1,240)	–	(40,455)
Revaluation	37,552	10,036	2,277	49,865
At end of year	451,595	195,337	7,674	654,606
The year end balance is analysed as follows:				
Historical cost	347,957	182,388	5,397	535,742
Revaluation surplus	103,638	12,949	2,277	118,864

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

	1998 £000
The year end balance for leasehold properties is analysed as follows:	
Leasehold with more than 50 years to run	190,137
Leasehold with less than 50 years to run	5,200
	195,337

The net book value of property assets includes £623,000 (1997: £8,000) in respect of capitalised interest.

16. Other fixed assets

	Fixtures and fittings £000	Motor vehicles £000	Total £000
Group			
Cost			
At beginning of year	1,145	664	1,809
Additions	481	193	674
Disposals	(277)	(299)	(576)
At end of year	1,349	558	1,907
Depreciation			
At beginning of year	527	257	784
Provided for year	393	176	569
Disposals	(100)	(190)	(290)
At end of year	820	243	1,063
Net book values:			
At 25th December 1998	529	315	844
At 25th December 1997	618	407	1,025

17. Other investments

	Group			Company
	Investment in CenterPoint Properties Trust £000	Other listed investments £000	Total £000	Shares in subsidiary and joint venture undertakings £000
At beginning of year	20,650	1	20,651	31,897
Additions	–	2,328	2,328	200
Transfers from Group companies	–	–	–	6,921
Deficit on revaluation (see note 28)	(205)	(774)	(979)	–
At end of year	20,445	1,555	22,000	39,018

At 25th December 1998, the Group owned 5.0% of the common stock (4.9% on a fully diluted basis) of CenterPoint Properties Trust, a Maryland real estate investment trust operating in Chicago, Illinois, USA. The stock is listed on the New York Stock Exchange.

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

18. Investment in joint ventures

	1998 £000	1997 £000
At beginning of year	4,483	4,472
Transfer from creditors	(26)	(123)
	4,457	4,349
Subscription for share capital	725	450
Amortisation of goodwill arising on additions	(5)	–
Disposals	26	68
Dividends and capital distributions received	(3,526)	(820)
Share of goodwill written off	–	59
Share of results (see below)	628	716
Share of taxation (see below)	(125)	(77)
Share of property revaluation surplus/(deficit)	87	(288)
	2,267	4,457
Transfer to creditors (see note 23)	–	26
At end of year	2,267	4,483

1997 comparative amounts have been restated in accordance with Financial Reporting Standard No. 9.

18. Investment in joint ventures continued

	Easter Holdings Ltd £000	Exchange Court Properties Ltd £000	Others £000	Total £000
Group share of results:				
Turnover	7,606	83	133	7,822
Operating profit	707	7	75	789
Interest receivable and similar income	32	1	43	76
Interest payable and similar charges	(96)	(102)	(39)	(237)
Profit on the sale of investment properties	–	–	45	45
Equity minority interests	(45)	–	–	(45)
Profit before tax	598	(94)	124	628
Taxation	(127)	2	–	(125)
Profit after tax	471	(92)	124	503
Group share of:				
Investment properties	1,196	–	78	1,274
Development properties at cost	–	2,062	70	2,132
Other current assets	4,166	8	135	4,309
Gross assets	5,362	2,070	283	7,715
Current liabilities	1,413	118	–	1,531
Loans	2,867	1,050	–	3,917
Gross liabilities	4,280	1,168	–	5,448
Share of net assets	1,082	902	283	2,267
Effective Group share	50%	50%	37.5% to 50%	
Potential recourse to the Group	Nil	Nil	Nil	
Actual recourse at end of year	Nil	Nil	Nil	

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

The joint ventures all operate in the UK.

19. Investment in associates

	1998 £000	1997 £000
At beginning of year	3,304	3,054
Transfer from creditors	–	(33)
	3,304	3,021
Share of results (see below)	419	195
Share of taxation (see below)	–	16
Dividends and capital distributions received	(660)	(361)
Disposals	–	(247)
Investment in associates	270	30
Share of property revaluation surplus	113	650
At end of year	3,446	3,304

1997 comparative amounts have been restated in accordance with Financial Reporting Standard No. 9.

19. Investment in associates continued

	Easter Industrial Partnership £000	Easter Runcorn Partnership £000	Total £000
Group share of results:			
Turnover	388	338	726
Operating profit	372	312	684
Interest receivable and similar income	2	2	4
Interest payable and similar charges	(163)	(106)	(269)
Profit before tax	211	208	419
Taxation	–	–	–
Profit after tax	211	208	419
Group share of:			
Investment properties	3,775	3,150	6,925
Other current assets	123	91	214
Gross assets	3,898	3,241	7,139
Current liabilities	357	99	456
Loans	1,875	1,362	3,237
Gross liabilities	2,232	1,461	3,693
Share of net assets	1,666	1,780	3,446
Effective Group share	25%	25%	
Potential recourse to the Group	7,500	1,362	8,862
Actual recourse at end of year	Nil	Nil	Nil

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

The associates both operate in the UK.

20. Current property assets

	1998 £000	1997 £000
Properties held for disposal	18,860	6,521
Properties under development	5,552	1,325
	24,412	7,846

The net book value of current property assets includes £10,000 (1997: £Nil) in respect of capitalised interest.

21. Debtors

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Amounts falling due after more than one year				
Trade debtors	–	800	–	–
Amounts owed by subsidiaries	–	–	55,703	18,205
Amounts owed by joint ventures	3,914	–	3,914	–
	3,914	800	59,617	18,205
Amounts falling due within one year				
Trade debtors	12,095	8,010	53	25
Amounts owed by subsidiaries	–	–	423,255	271,936
Amounts owed by joint ventures	–	3,240	–	3,204
Other debtors	2,712	1,719	358	1,058
Tax recoverable (including advance corporation tax)	461	785	703	1,052
Prepayments and accrued income	3,534	10,902	39,016	24,699
	18,802	24,656	463,385	301,974

22. Cash at bank

Cash at bank includes £36,000 (1997: £222,000) specifically held as security deposits and retained in rent accounts and not freely available to the Group for day to day commercial purposes.

23. Creditors: amounts falling due within one year

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Bank loans (secured) (see note 25)	396	22,461	(322)	(193)
Amounts owed by subsidiaries	–	–	13,262	8,824
Trade creditors	1,397	1,122	7	9
Other creditors	2,858	4,404	–	1
Taxation and social security	1,271	1,474	–	–
Corporation tax (including advance corporation tax)	511	1,487	–	668
Accruals and deferred income	24,511	20,507	4,469	3,179
Proposed dividends	4,176	1,910	4,176	1,910
Share of net liabilities of joint venture (see note 18)	–	26	–	–
	35,120	53,391	21,592	14,398

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

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Bank loans (secured) (see note 25)	340,439	214,482	305,003	174,449
Convertible loan stock (unsecured) (see note 26)	24,041	23,933	24,041	23,933
	364,480	238,415	329,044	198,382

25. Bank loans

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Aggregate amount repayable:				
Between one and two years	33,838	61,745	(147)	(172)
Between two and five years	306,601	152,737	305,150	174,621
Loans due after more than one year	340,439	214,482	305,003	174,449
Loans due in one year or less or on demand	487	22,554	(231)	(100)
Total loans	340,926	237,036	304,772	174,349

Bank loans are secured on properties valued at £667,163,000.

Bank loans are stated net of unamortised issue expenses totalling £499,000 (1997: £186,000).

The following information has been produced in order to comply with Financial Reporting Standard No.13. A more detailed analysis is given in the finance review on pages 18 and 19.

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

	Total £000	Weighted average interest rate	Weighted average period-years
Fixed and swapped loans	287,792	7.9%	4.6
Variable rate loans	78,275	7.5%	n/a
	366,067		

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

25. Bank loans continued

The table below shows the market value of fixed rate debt instruments, and reflects the difference between the interest rate yield curve as at 25th December 1998 and the rates historically committed; namely the fair value adjustment.

	Book value £000	Fair value £000	Fair value adjustment £000
Convertible unsecured loan stock	24,642	25,349	(707)
Bank borrowings	15,250	16,088	(838)
Interest rate swaps	247,900	257,728	(9,828)
	287,792	299,165	(11,373)

Interest rate swaps and bank fixed rates have been valued on a replacement basis. They have been valued against the offered side of the zero coupon yield curve commencing on 25th December 1998 and ending on the contracted expiry dates.

Undrawn loan facilities as at 25th December 1998 are as follows:

	£000
Loans due to be repaid in:	
Less than one year	–
Between one and two years	11,976
Between two and five years	47,819
	59,795

Financial assets

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

Currency profile

All monetary assets and liabilities are denominated in sterling.

1997 comparative information

Comparatives have not been provided due to the impractical nature of obtaining the information and the early adoption of Financial Reporting Standard No. 13.

26. Convertible subordinated unsecured loan stock

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Convertible loan stock	24,642	24,642	24,642	24,642
Unamortised loan issue costs due after one year	(601)	(709)	(601)	(709)
	24,041	23,933	24,041	23,933
Unamortised loan issue costs due within one year	(91)	(93)	(91)	(93)
	23,950	23,840	23,950	23,840

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

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

27. Called up share capital

	Number of shares issued and fully paid		Nominal value of shares issued and fully paid	
	1998 Number	1997 Number	1998 £000	1997 £000
Ordinary shares of 10p each				
At beginning of year	76,399,235	45,594,600	7,640	4,560
Issued in respect of rights issue	21,828,352	–	2,183	–
Issued in respect of purchase of Lanham plc	–	960,906	–	96
Issued in respect of minority interests	–	356,034	–	36
Issued in respect of placing and open offer	–	28,159,526	–	2,816
Issued in respect of conversion of convertible loan stock	–	703,068	–	70
Issued on exercise of share options	–	600,986	–	60
Issued in respect of profit sharing scheme	27,684	24,115	3	2
At end of year	98,255,271	76,399,235	9,826	7,640

	Authorised	
	1998	1997
Ordinary shares of 10p each	150,000,000	120,000,000

On 16th April 1998, the authorised Ordinary share capital increased by 30,000,000 to 150,000,000 Ordinary shares.

The Ordinary share capital issued during the year was issued for a total consideration of £61,198,000.

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

The options to subscribe for new Ordinary shares of 10p each under the share option schemes that were outstanding at 25th December 1998 are as follows:

	25th December 1998	
	Number of shares	Subscription price
Period within which options are exercisable:		
22nd December 1996 to 22nd December 2003	460,814	168.9p
28th October 1997 to 28th October 2004	349,281	131.4p
13th April 1998 to 13th April 2005	20,852	132.4p
21st October 1999 to 21st October 2006	182,458	193.2p
18th June 2000 to 18th June 2004*	709,869	226.4p
18th June 2000 to 18th June 2007*	109,558	226.4p
15th May 2001 to 15th May 2008**	1,156,500	279.5p
22nd May 2001 to 22nd May 2008**	83,290	286.5p
28th September 2001 to 28th September 2008**	25,000	196.5p
	3,097,622	

* Only exercisable if conditions relating to growth in net asset value per share are met.

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

28. Reserves

		Revaluation reserves		Other reserves	
	Share premium account £000	Property revaluation reserve £000	Investment revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000
Group					
At beginning of year	104,921	67,268	17,629	591	19,250
Issue of share capital	59,012	–	–	–	–
Expenses of share issue	(2,070)	–	–	–	–
Group share of revaluation of investment properties	–	48,694	–	–	–
Realisation of surplus on disposal of investment properties	–	(1,313)	–	–	1,313
Realisation of deficit on disposals in joint ventures	–	54	–	–	(54)
Share of unrealised revaluation surplus in joint ventures	–	87	–	–	–
Share of unrealised revaluation surplus in associates	–	113	–	–	–
Additional goodwill written off	–	–	–	–	(277)
Revaluation deficit on other investments	–	–	(979)	–	–
Profit for the year	–	–	–	–	6,916
Taxation in statement of recognised gains and losses	–	–	–	–	(165)
At end of year	161,863	114,903	16,650	591	26,983
Group's share of post acquisition Reserves of joint ventures and associates					
At beginning of year		475			3,613
Movement during year		254			(3,264)
At end of year		729			349
Company					
At beginning of year	104,981			591	26,820
Movement during the year	56,942			–	12,632
At end of year	161,923			591	39,452

The accumulated goodwill written off to reserves at end of year is £4,105,000 (1997: £3,828,000).

Additional goodwill written off in the year to 25th December 1998 relates to an amendment to the fair value of an acquisition in the year ended 25th December 1997 when the Group's accounting policy was to write off goodwill on acquisition immediately to reserves. Financial Reporting Standard No. 10 is now applicable and all future purchased goodwill will be capitalised and amortised over its useful economic life.

29. Equity minority interests

	Profit and loss 1998 £000	Balance sheet 1998 £000	Profit and loss 1997 £000	Balance sheet 1997 £000
Share of net assets attributable to minority shareholders:				
At beginning of year	–	933	–	2,458
Acquired by the Group	–	–	–	(2,514)
Minority interest in company acquired	–	–	–	33
Share of results	(3)	(3)	43	43
Share of joint ventures' (see note 18)	45	–	27	–
Share of movements in revaluation reserve	–	1,171	–	913
At end of year	42	2,101	70	933

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

30. Non-equity funding by joint arrangement partners

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

31. Net assets per share

Net assets per share have been calculated on Ordinary shares of 10p each 98,255,271 (1997: 76,399,235) in issue at the year end and have been based on net assets attributable to shareholders of £330,816,000 (1997: £217,299,000).

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

32. Deferred taxation

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

The potential Group liability is as follows:

	1998 £000	1997 £000
Tax on capital gains if investment assets were sold at their current valuation	31,985	20,506
Accelerated capital allowances	5,182	3,197
Management expenses carried forward	(871)	(871)
	36,296	22,832

33. Valuations

The properties were valued at 25th December 1998, as follows:

	Valuer	Basis of valuation	£000
Group properties:	DTZ Debenham Thorpe	Open market value	571,525
		Open market value – properties under construction*	7,674
	St Quintin	Open market value	70,610
	Directors	Open market value	4,670
	Directors	Cost	127
			654,606

	Valuer	Basis of valuation	£000
Properties held by joint ventures and associates:			
The Capital Properties Partnership	Directors	Open market value	155
Easter Holdings Limited	Easter Holdings Limited	Open market value	2,393
Easter Runcorn and Easter Industrial Partnerships	Hillier Parker	Open market value**	27,700
			30,248

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

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

** The freehold and leasehold properties were independently valued at 31st December 1998.

34. Contingent liabilities and guarantees

At 25th December 1998, the Company or the Group had given guarantees in respect of:

– bank borrowings and interest payable of certain associates;

– the performance of certain subsidiaries in respect of their involvement in joint ventures;

– rental and grant repayment obligations of certain joint ventures;

– non-equity funding by joint arrangement partners

No security has been provided against any of these guarantees.

Recourse to the Group in respect of guarantees of the bank loans of joint ventures and associates not included in the consolidated balance sheet is set out in note 18 and 19.

35. Future commitments

	1998 £000	1997 £000
Capital expenditure commitments:		
Contracted, but not provided for	23,900	86
Revenue expenditure commitments:		
Commitments for 1999 in respect of operating leases for land and buildings which expire:		
Between two and five years	–	5
In five years or more	779	782
	779	787

36. Notes to the cash flow statement

(a) Net cash inflow from operating activities

	1998 £000	1997 £000
Group operating profit	33,434	20,956
Profit on the sale of the trading and development properties	(517)	(1,326)
	32,917	19,630
Depreciation	569	342
Loss on disposal of fixed assets	113	31
Amortisation of goodwill arising on acquisition of joint venture	5	–
Increase in trade debtors, other debtors and prepayments	(5,305)	(1,931)
Increase in trade creditors, other creditors, taxation and social security and accruals	3,004	390
Other non-cash movements	–	14
Net cash inflow from operating activities	31,303	18,476

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

	1998 £000	1997 £000
(Decrease)/increase in cash in year	(3,753)	2,968
Cash inflow from increase in debt financing	(104,203)	(88,841)
Change in net debt resulting from cash flows	(107,956)	(85,873)
Loans and financing agreements acquired with subsidiary	–	(4,178)
Conversion of convertible loan stock to equity ordinary shares of 10p each	–	1,412
Other non-cash changes	–	(37)
Movement in net debt in the year	(107,956)	(88,676)
Net debt at beginning of year	(252,635)	(163,959)
Net debt at end of year	(360,591)	(252,635)

(c) Analysis of net debt

	At 25th December 1997 £000	Cash flows £000	At 25th December 1998 £000
Cash in hand and at bank	9,229	(3,753)	5,476
Debt due within one year	(22,658)	21,898	(760)
Debt due after one year	(239,206)	(126,101)	(365,307)
Total	(252,635)	(107,956)	(360,591)

37. Related party transactions

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

Joint ventures and associates

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

The Group has provided a £5,000,000 loan facility to Easter Holdings Ltd which is repayable on or before 1st January 2001. At 25th December 1998 the loan outstanding was £3,914,000 (1997: £3,000,000). Interest was charged on this facility at rates ranging between 9.25% and 10.25% during the year. The interest receivable for the year is £364,000 (1997: £539,000). The Group was charged £171,000 by a subsidiary of Easter Holdings Ltd in respect of property acquisition and management fees during the year, and £270,000 to surrender a property it leased from the Group. The Group charged a £250,000 loan guarantee fee to Easter Holdings Group during the year.

37. Related party transactions continued

Directors

David Cherry is a former Senior Partner and currently a consultant to the firm of Donaldsons, which has continued to act during 1998 as one of the Group's property advisers and as such has received fees for its services on normal professional terms.

During 1998 Primesight plc purchased one of the Group's properties on normal commercial terms for a total consideration of £1,244,000. Martin Barber is a director and shareholder of Primesight plc. Roger Boyland, Xavier Pullen, Lynda Coral and Viscount Chandos are shareholders of Primesight plc.

During 1998 the Company acquired from a third party a 50% share in a joint venture company, in which Kenneth Ford has the remaining 50% interest; which has option rights over land for development. The Company subsequently transferred its 50% interest in the joint venture company to its 75% subsidiary Easter Capital Investment Holdings Limited.

During 1998 Cine UK Limited entered into agreements for lease at two of the Group's properties on normal commercial terms. Viscount Chandos is a director and shareholder of Cine UK Limited. Martin Barber is a shareholder of Cine UK.

During 1998 Lopex PLC leased one of the Group's properties on normal commercial terms. At 25th December 1998 Lopex PLC agreed to surrender the lease for a premium, payable to the Group, of £68,000 which was paid after the year end. Viscount Chandos is a director and shareholder of Lopex PLC.

During 1998 the Group entered into a partnership arrangement with funds managed by Pricoa Property Investment Management Limited of which Martin Barber is non-executive chairman.

38. Post balance sheet events

On 4th January 1999 the Group purchased Bank House, Birmingham for a total consideration of £4,280,000.

On 5th January 1999 the Group purchased Court Road Industrial Estate, Cwmbran for a total consideration of £1,950,000.

On 29th January 1999 the Group purchased Imperial House, Grimsby for a total consideration of £1,586,000 and 36-38 Whitechapel and Williamson Street, Liverpool for a total consideration of £1,188,000.

On 18th February 1999 the Group purchased Westway Crosshopping Park, Greenford for a total consideration of £33,250,000.

On 18th February 1999 the Group purchased from Phillips & Drew Fund Management Limited the remaining 75% interest in the properties at Manor Park Industrial Estate, Runcorn and properties held by Easter Industrial Partnership for a total consideration of £9,750,000 and £11,381,000 respectively.

39. Subsidiary, joint arrangement entities, associated and joint venture undertakings at 25th December 1998

Principal subsidiaries, joint arrangement entities, associated companies and joint ventures	Nature of property business	Group effective share of business
Capital and Regional Shopping Centres Limited***	Investment and management	100%
The Howgate Shopping Centre Limited**	Investment and management	100%
Capital and Regional (Norwich) Limited	Development	100%
Capital and Regional (Out-of-Town) Ashford Limited	Development	100%
Capital and Regional UK Holdings Limited	Investment and holding	100%
Capital and Regional Property Investments Limited	Investment and holding	100%
Capital and Regional Retail (Northern) Limited***	Investment and management	100%
Capital and Regional Retail (York) Limited	Development	100%
Exchange Court Properties Limited**	Development	50%
Capital and Lanham Retail Parks Limited	Investment and management	100%
St Andrew House (Glasgow) Limited**	Investment and management	100%
Capital and Regional Limited***	Investment and management	100%
Cosmorole Limited	Investment and management	100%
Capital and Regional (Sunderland) Limited	Investment and management	100%
Capital and Regional (Victoria) Limited	Investment and management	100%
Jearon Properties Limited	Investment and management	100%
Capital and Lanham Retail Parks (Wolverhampton) Limited	Development	100%
Capital and Regional Property Management Limited	Management	100%
Capital and Regional Land Holdings Limited	Investment and management	100%
Capital and Regional (Milton Keynes) Ltd	Investment and management	100%
Sports Village Milton Keynes Partnership	Investment and management	50%
Philcap One Limited*	Investment and management	100%
The Easter Industrial Partnership*	Investment and management	25%

39. Subsidiary, joint arrangement entities, associated and joint venture undertakings at 25th December 1998 continued

Principal subsidiaries, joint arrangement entities, associated companies and joint ventures	Nature of property business	Group effective Share of business
Philcap Two Limited*	Investment and management	100%
The Easter Runcorn Partnership*	Investment and management	25%
Realcap Management Limited	Investment and management	100%
Realcap Investments Limited	Investment and management	100%
The Capital Properties Partnership	Investment and management	50%
Capital and Regional Green Holdings Limited	Investment and holding	100%
R. Green Properties (Holdings)	Investment and holding	100%
R. Green Properties Limited	Investment and holding	100%
Capital and Regional Investments Limited***	Investment and management	100%
Capital and Regional Estates Limited	Development and trading	100%
R. Green (Bedford) Limited	Investment and management	100%
R. Green (Brighton) Limited	Investment and management	100%
Green-Sinfield Limited	Investment and management	100%
Capital and Regional USA Holdings Limited	Investment and holding	100%
Capital and Regional Out-of-Town Limited	Development	100%
Sports Villages (Milton Keynes) Limited	Development	100%
Sports Villages Developments Limited	Development	100%
Sports Villages (Cardiff) Limited	Development	100%
Applied Solutions (Projects) Limited	Project management	50%
Capital and Lanham PLC	Investment and holding	100%
Capital and Lanham Holdings Limited	Investment and holding	100%
Capital and Lanham Wembley Limited	Investment and holding	100%
Capital and Lanham Developments (Pontefract) Limited	Development	100%
Capital and Lanham Developments (Cannock) Limited	Development	100%
Capital and Lanham Developments (Doncaster) Limited	Development	100%
Capital and Lanham Developments (Telford) Limited	Development	100%
Capital and Lanham Developments (Croydon) Limited	Development	100%
Capital and Lanham Developments (Dagenham) Limited	Development	100%
Capital and Lanham Developments (Orchard) Limited	Development	100%
Capital and Lanham Construction (Coventry) Limited	Development	100%
Easter Capital Investment Holdings Limited	Investment and holding	75%
Easter Capital Investments Limited	Investment and management	75%
Easter Properties (North East) Limited	Investment and management	75%
Twelve Quays Limited	Investment and management	75%
Twelve Quays One Limited	Investment and management	75%
Netherton Developments Limited	Development	37.5%
Easter Holdings Limited	Investment and holding	50%
Easter Management Limited	Management	50%
Easter Projects Limited	Project management	25%
Easter Development Group Limited	Development	50%
Easter Properties Limited	Development	50%
Easter Properties (Sunderland) Limited	Development	50%
Easter Properties (Bredbury) Limited	Development	50%
Easter Properties (Willenhall) Limited	Development	50%
Easter Properties (Hemel Hempstead) Limited	Development	50%
Easter Properties (Basingstoke) Limited	Development	50%
Easter Properties (Trafford Park) Limited	Development	50%
Easter Properties (Loudwater) Limited	Development	50%
Easter Properties (Warrington) Limited	Development	50%
Easter Properties (Milton Keynes) Limited	Development	50%
Easter and Northern (Team Valley) Limited	Development	37.5%
Easter and Cairn Property Developments (Aylesbury) Limited	Development	27.5%
Hibiscus Properties Limited	Development	25%
Easter & Arun (Oldbury) Limited	Development	25%

The subsidiary and associated companies and joint ventures are registered in England and Wales, and Scotland. Except as identified these operate in England and Wales.

Investment in joint ventures and associates are dealt with in notes 18 and 19.

All voting rights are in line with effective share of business.

*Financial period ended 30th September.

**Operates in Scotland.

***Operates in England and Wales, and Scotland.

Directors' Report

for the year ended 25th December 1998

The directors present their report together with the audited financial statements for the year ended 25th December 1998.

Results and proposed dividends

The consolidated profit and loss account is set out on page 33 and shows a profit on ordinary activities after taxation of £11.134m.

The directors recommend the payment of a final dividend of 2.75p per Ordinary share on 26th April 1999, to members on the register at the close of business on 6th April 1999, which together with an interim dividend of 1.5p per Ordinary share, payment deferred until 7th April 1999, makes a total of 4.25p for the year.

Principal activities, trading review and future developments

The principal activity of the Group is that of property investment, development and management.
A review of the activities and prospects of the Group is given in the Chairman's Statement and reviews on pages 2 to 21.

Directors

The directors of the Company at 25th December 1998, all of whom have been directors for the whole of the year are as follows:

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

In accordance with the Articles of Association, R. Boyland, Viscount Chandos (who is a member of the Remuneration Committee), K. Ford and A. Lewis-Pratt retire by rotation, and being eligible, offer themselves for re-appointment. R. Boyland, K. Ford and A. Lewis-Pratt have service contracts, which require notice of one year. Viscount Chandos has a letter of appointment for a period of three years expiring on 31st December 1999 under the terms of which he is required to vacate office without compensation if not re-appointed by shareholders on retirement by rotation. Biographies of the Directors of the Company are set out on pages 22 and 23.

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 4,547,670 issued shares representing 4.6% of the issued Ordinary share capital of the Company as detailed in the Report on Directors' Remuneration and Interests on pages 25 to 28.

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

Share options

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

Details of options granted to the directors, under the same Schemes, are contained in the Report on Directors' Remuneration and Interests on pages 25 to 28.

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 25th February 1999:

	Shares	%
Phillips & Drew Fund Management Limited	19,446,461	19.79
Royal & Sun Alliance	4,549,915	4.63
Clerical Medical & General Life Assurance Society	4,447,748	4.53
Legal & General	4,398,395	4.47
United Nations Pension Fund	4,168,834	4.24
Norwich Union Investment Management	3,773,621	3.84
BAT Industries plc	3,173,914	3.23
Total	43,958,888	44.73

Charitable donations

During the year the Group contributed £7,746 (1997: £5,073) 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 26 days purchases outstanding.

Compliance with Combined Code

A statement on Corporate Governance is set out on pages 29 to 31.

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.

Euro

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

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

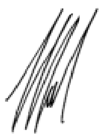
Authority to purchase own shares

At the 1998 Annual General Meeting, the Company was granted authority to make purchases in the market of its own shares subject to specified limits. This authority expires at the conclusion of the Company's Annual General Meeting for this year and under resolution 8, which is proposed as a special resolution, the Company is seeking to renew such authority, until the conclusion of the 2000 Annual General Meeting, or for 15 months after the date on which the resolution is passed, whichever is the earlier. The authority relates to 5% of the current issued share capital, details of which are set out in note 27 to the accounts. The directors will only exercise this authority if they consider that it will result in an increase in asset value per share for the remaining shareholders and that it will be in the best interests of the Company to do so.

Pre-emption rights

Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. Under resolution 9, which is proposed as a special resolution, the directors seek to renew their annual authority to allot shares for cash as if the pre-emption rights contained in Section 89(1) of the Companies Act 1985 did not apply up to a maximum of 5% of the Company's issued share capital.

By Order of the Board



L. Coral Secretary
26th February 1999

Notice of the Annual General Meeting

Notice is hereby given that the twentieth Annual General Meeting of the Company will be held at Mandarin Oriental Hyde Park hotel, 66 Knightsbridge, London SW1X 7LA in the Ballroom on 23rd April 1999 at 12 noon for the following purposes.

Ordinary business

1. To consider and, if thought fit, adopt the accounts for the year ended 25th December 1998, and the reports of the directors and auditors thereon.
2. To declare a final dividend of 2.75p per Ordinary share.
3. To re-appoint R. Boyland as a director of the Company.
4. To re-appoint Viscount Chandos as a director of the Company.
5. To re-appoint K. Ford as a director of the Company.
6. To re-appoint A. Lewis-Pratt as a director of the Company.
7. To appoint Deloitte & Touche as auditors for the period prescribed by Section 385(2) of the Companies Act 1985 and to authorise the directors to determine their remuneration for the ensuing year.

Special business

8. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution: In compliance with Section 166 of the Companies Act 1985, the Company is hereby generally and unconditionally authorised to make market purchases of its own shares provided always that:

   (a) this authority is limited to a maximum number of 4,912,764 Ordinary shares of 10p each 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 2000 or 15 months after the date on which this resolution is passed (whichever is the earlier).

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

   That:

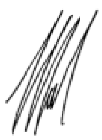
   (a) the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash, in accordance with any authority conferred on them by any previous meeting of the members of the Company as if Section 89(1) of that Act did not apply to the allotment; and reference in this resolution to the allotment of equity securities includes reference to the grant of a right to subscribe for, or to convert any securities into, relevant shares (as so defined) in the Company; provided that the power conferred by this 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 2000 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.

By Order of the Board



L. Coral Secretary
26th February 1999

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, Bank of Scotland, Registrar Services, Ground Floor, Apex House, 9 Haddington Place, Edinburgh EH7 0LA not later than 12 noon on 21st April 1999.

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Registered number
1399411

1999 Financial Calendar

Annual General Meeting – 23rd April

Final dividend record date – 6th April

1998 Interim dividend payment – 7th April

Final dividend payment – 26th April

Interim results – 13th July

1999 Interim dividend – August

1999 Preliminary results announcement –
February/March 2000

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