

Capital & Regional

Capital & Regional plc
Annual Report 2006

Registered number 1399411

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COMPANIES HOUSE

Capital & Regional celebrates its 21

**The Right people... we aim to build be
teams with strength, depth and humc**

.st anniversary

st of class specialist management
our

Section 1

The story

- 01 Capital & Regional... our philosophy
- 02 Capital & Regional at a glance
- 03 Key events
- 04 Financial highlights
- 05 Chairman's statement
- 06 Operating and financial review – Strategic update
- 07 Operating and financial review – Results
- 12 Operating and financial review – Strategy, resources and risks
- 14 The Mall
- 18 The Junction
- 22 X-Leisure
- 26 German portfolio
- 30 FIX UK
- 34 Joint venture and other interests

Section 2

Governance

- 36 Directors
- 38 Directors' report
- 40 Directors' remuneration report
- 46 Corporate governance report
- 49 Responsible business
- 50 Statement of directors' responsibilities
- 51 Independent auditors' report to the members of Capital & Regional plc – Group

Section 3

Accounts

- 52 Consolidated income statement
- 53 Consolidated balance sheet
- 54 Consolidated statement of recognised income and expense
- 54 Reconciliation of movement in equity shareholders' funds
- 55 Consolidated cash flow statement
- 56 Notes to the accounts
- 85 Independent auditors' report – Company
- 86 Company balance sheet
- 87 Notes to the Company accounts

Section 4

Other information

- 90 Portfolio information
- 91 Fund portfolio information (100% figures)
- 92 Five-year review
- 93 Glossary of terms
- 95 Advisers and corporate information
- 96 Shareholder information

- The right property . C&R invests in property sectors with sound fundamentals where active management can make a difference
- The right people. . we aim to build best-of-class specialist management teams
- The right money. we are structured as a co-investing asset manager, aiming to access the most efficient equity and debt for each of our activities

Group structure

Portfolio by market segment

Portfolio by ownership structure

Track record

	NAV growth	NAV per share	Dividend per share	Dividend growth
December 1996		223p +19%	3 0p +20%	
December 1997		272p +22%	3 5p +17%	
December 1998		321p +18%	4 25p +21%	
December 1999		370p +17%	5 0p +18%	
December 2000		350p -5%	5 5p +10%	
December 2001		336p -4%	6 0p +11%	
December 2002		392p +17%	7 0p +17%	
December 2003		521p +33%	9 0p +29%	
December 2004		710p +36%	14 0p +56%	
December 2005		985p* +38%	18 0p +40%	
December 2006		1272p* +29%	26 0p +44%	

* Switch to IFRS triple net NAV

2006

- 6 January The Mall acquisition of four shopping centres for £535 million completes
- 20 January Acquisition of six further big box retail properties in Germany for €115 million
- 1 February Pre-let to Asda at Capital Retail Park, Cardiff
- 3 March The Mall sells shopping centres at Redhill and Bradford
- 24 March The Mall attracts four new investors for £90 million
- 5 July Acquisition of €214 million German retail portfolio
- 10 July Acquisition of 30% interest in Manchester Arena
- 4 August X-Leisure completes £5.5 million makeover of Tower Park, Poole
- 24 August X-Leisure brings Habitat to O2 Centre
- 2 September The Mall raises a further £375 million with Mall bond tap issue
- 12 September Sale of 12.25 million Mall units to National Pensions Reserve Fund of Ireland for £30 million
- 12 September Junction sells four secondary retail parks for a combined total of £159.8 million
- 13 October Sale of Morfa Shopping Park, Swansea for £105 million to Junction
- 23 November Further acquisitions in Germany for €50 million
- 15 December X-Leisure exchanges on the sale of Star City, Birmingham for £85.5 million

2007

- 15 January X-Leisure completes on the Star City sale
- 12 February Acquisition of portfolio of six FIX UK properties
- 23 February Completion on sale of Xscape Milton Keynes and Castleford to the X-Leisure fund

Portfolio

The growth in the portfolios has enabled us to develop stronger and deeper expertise in our chosen markets. Fund investors and shareholders enjoy the benefits of scale

Property under management
£ million

£6.5bn

NAV growth

Net assets per share have grown faster than most of our competitors due to asset management initiatives, acceleration from our earnings businesses and efficient financial structures

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

29%

Dividend growth

Our dividends have increased with our recurring cashflows, which are enhanced by our earnings businesses. We do not distribute performance fees, which are reinvested in the growth of the business

Dividend growth
Pence per share

44%

Overview

The Company has delivered another striking performance in 2006, with a total return on equity of 32%

Our share price has also performed strongly. Total shareholder return (dividends plus the increase in the share price over the year) was 81% the highest of our peer Group of 13 companies in the FTSE Real Estate sector capitalised at more than £1 billion.

Dividend

The Board is recommending a final dividend of 17p (2005 11p), bringing the total for the year to 26p (2005 18p) a 44% increase. Over the past ten years dividends have increased at an average rate of 24% per annum.

Dividend	Year on year increase	2006	2005
Interim	29%	9p	7p
Final	55%	17p	11p
Total	44%	26p	18p

The proposed distribution for 2006 is fully covered by our recurring profits alone allowing performance fees earned from the funds to be reinvested in the growth of the business.

The Board

During the year we appointed two new independent non-executive directors. Philip Newton was until recently the chief executive of Merchant Retail Group plc where he built up the successful Perfume Shop chain. Manjit Wolstenholme formerly a member of Gleacher Shacklock LLC and co-head of investment banking at Dresdner Kleinwort Wasserstein has also taken over as chair of the Remuneration Committee.

Responsible business

We are strongly aware of our responsibilities to staff and to the wider community. We have long regarded it as good business to engage with all stakeholders, and have more recently taken steps to co-ordinate and measure our efforts. To this end we have appointed a Board Committee chaired by Alan Coppin to supervise this initiative.

In particular, we believe that good day-to-day shopping centre management can make a real difference to the environment. We have taken a lead with the Enviromall Partnership, where we have linked with a number of industry bodies to develop benchmarks for the industry.

Our twenty-first anniversary

2007 is our twenty-first anniversary as a publicly traded company. We started on the Unlisted Securities Market (the predecessor of AIM) in 1986 with 55 employees and an initial market capitalisation of £7 million. Today we have 936 employees and a market capitalisation of well over £1 billion. That journey would not have been possible without the exceptional efforts and contribution of employees past and present and I would like to thank them warmly.

At our coming of age, we can look back at our success so far with some satisfaction and pride but more importantly we are looking forward to applying the strength and experience we have built up to make the very best of the opportunities in the years to come.

Tom Chandos
Chairman

Tom Chandos
Chairman

Overview

Our performance in 2006 has been superb. Certainly it was enhanced by yield compression but even without this the returns would have been in the early teens. This demonstrates the core strengths of our business model

Five years ago we refocused the Company on creating funds which we invested in as well as managed and the results have been good. We earn significant management and performance fees from the assets that we manage which cover our management overhead and boost our co-investment returns. We are continuing to diversify into asset areas that are ripe for the application of our specialist skills.

Total property assets under management increased by 26% in 2006, to £6.5 billion. This is more than seven times the portfolio we were managing in 2001.

Most of the growth in our direct property portfolio came from the expansion of our German retail park and FIX UK trade park portfolios which now account for 23% of our total property exposure. These new ventures are generating excellent returns and may well become funds in their own right in due course alongside our established UK shopping centre, retail park and leisure property funds.

The **Mall Fund**, with assets of just over £3 billion, now owns 23 shopping centres, about 10% of the covered shopping centre market in the UK. We believe that over the next three to five years this fund can expand to 40 shopping centres, taking its market share to about 20%.

The Mall Fund's performance has been particularly satisfying since inception. It has outperformed its Shopping Centre IRR benchmark at an ungeared level by an average of 3.8% per annum, and has shown a total return to investors averaging 26.8% per annum.

The **Junction Fund** has grown from £336 million in 2002 to £1.6 billion at the end of 2006. There is substantial development and redevelopment to take place in this fund over the next three to five years which could produce substantial returns. Since inception investors have enjoyed total returns averaging 26.6%.

The **X-Leisure Fund** was created in 2004 with initial assets of £502 million, rising to £807 million at the end of 2006 and

£917 million at 28 February 2007. In 2006, The X-Leisure Fund delivered its strongest performance to date with a total return of 30.4% for the year ended 30 December 2006. This positions the fund in the top quartile of all UK property funds.

Our markets

We believe the long-term fundamentals for UK retail and leisure remain strong. A growing population with a high propensity to spend is serviced by a restricted supply of retail space which remains well below other developed economies, particularly the US.

In these circumstances long-term rental growth can be expected. There have been some concerns that retail investment yields have fallen too far. We do not agree.

In particular we see the reduction in IPD shopping centre equivalent yields from 7.3% in 2000 to 5.3% in 2006 as being in line with other real asset classes. The margin over index-linked gilts is close to its long-term average and therefore should be sustainable over time.

We continue to watch the development of the UK REIT with interest. We have explained previously why REIT status will not suit C&R which already has a tax-efficient structure. However, REITs may attract new cash to the sector and provide acquisition opportunities for us, as long-held assets with contingent gains are released.

Outlook

We believe that the following factors position us well for the future whatever the economic background:

- We have experienced management teams with strength in depth, specialisation and experience. All are highly incentivised to perform.
 - We have a management business with long-term fee income streams which enhances our cash flow and strengthens our business.
- We are already seeding the next generation of specialist portfolios, in Germany and trade centres which may become funds in the future.

This has been our fourth year in a row with returns of more than 30% ahead of a buoyant market. The foundations of our business are sound and we remain confident that our management teams will continue to outperform.

Martin Barber	Xavier Pullen
Chief Executive	Deputy Chief Executive

Martin Barber
Chief Executive

Xavier Pullen
Deputy Chief Executive

Results

We have focused our key measures of performance in four areas business building, investment returns, recurring profitability and productivity.

Key performance indicators	2006	2005	Growth
Business building			
Property under management	£6.5bn	£5.1bn	26%
Investment returns			
Year end share price*	£15.42	£8.68	78%
Total shareholder return	81%	28%	
Triple net NAV per share (Note 24)	£12.72	£9.85	29%
Return on equity (Note 25)	32%	41%	
Recurring profitability			
Recurring pre-tax profit (Note 2a)	£32.3m	£23.1m	39%
Dividend per share	26p	18p	44%
Earnings per share (Note 10)	46p	33p	39%
Productivity			
Overhead as % of property managed	0.29%	0.31%	
CRPM staff turnover	11.7%	13.5%	

* Source: London Stock Exchange

Business building During 2006 our property under management increased as follows

Portfolio growth 2006	£m
Property under management at 30 December 2005	5,139
Acquisitions	
Mall purchase of two shopping centres (net)	387
Additions to FIX UK trade mark portfolio	33
Additions to German portfolio	229
Manchester Arena	67
Other (including capital and development expenditure)	163
Disposals	
Junction sale of four retail parks	(160)
Revaluation surpluses	599
Property under management at 30 December 2006	6,457

In addition to building our property portfolios we have strengthened our management teams and expanded SNO'zone to three locations

Investment returns During the year our share price increased by 78% and the dividend we paid brought total shareholder return up to 81%. The property sector in general has moved from a discount to NAV to a premium. We believe that our increase may also reflect a better recognition by the market of the value of our two earnings businesses CRPM and SNO'zone.

Our total accounting return on equity was 32% split between the increase in NAV and the dividend. There was a significant contribution from our two earnings businesses CRPM and SNO'zone and from the outperformance of our portfolios against the market. Some of the increase was also driven by the rise in property values during the year due to market yield shift.

Recurring profitability During the year our recurring pre-tax profit increased by 39% mainly due to increased profits from our growing German portfolio and from our property management business.

	£m
Increase in recurring pre-tax profit	
2005 recurring pre-tax profit	23.1
Increase attributable to:	
UK portfolio	1.1
German portfolio	4.9
Property management	3.2
2006 recurring pre-tax profit	32.3

We use our recurring pre-tax profit adjusted for notional tax to calculate dividend cover

	2006 pps	2005 pps
Dividend cover (pence per share)		
Recurring pre-tax profit per share	44	32
Full notional tax charge at 30%	(13)	(10)
Net	31	22
Proposed total dividend per share	26	18
Dividend cover	119%	122%

This is a very conservative indicator of dividend coverage, but we believe it is the correct one for producing sustainable dividend growth as we have in the past. Under the EPRA definition of earnings per share, which would include performance fees, our dividend cover would increase to 177%.

Productivity Since forming the fund management business we have consistently improved productivity by focusing specialist management teams on growing portfolios. This benefits fund investors and C&R shareholders alike. Our fixed overhead has fallen as a percentage of property under management from 0.69% in 2001 to 0.29% now.

Non-financial measures Our divisions monitor performance in ways that suit each individual business. For example, they systematically survey customers, measure carbon emissions, and monitor achievement of recycling targets.

The key non-financial indicator measured for the Group is staff turnover for CRPM, which was 11.7% in 2006 and 13.5% in 2005. We continue to be able to retain the key people for running the business. In 2006 we had only one leaver among those participating in our senior management incentive schemes.

William Sunnucks
Group Finance Director

The Corporate team

From left: Tracy Richardson, Anton Manuelpillai, Tim Caufield, Anthony Brady

Portfolio returns

Each UK portfolio has a benchmark against which we monitor performance

- Mall: IPD shopping centres index expressed as an IRR
- Junction: IPD retail parks index expressed as an IRR
- X-Leisure: 12%
- FIX UK: IPD all industrials index

At fund level we outperformed at geared and ungeared level in all funds. In the case of the Mall and X-Leisure Funds, the outperformance at both geared and ungeared level was significant. The Junction Fund was slightly ahead of its benchmark following some restructuring of its portfolio and it has outperformed on a three-year basis.

Fund performance over the last three years	Geared return (IRR)	Ungeared return (IRR)	Benchmark return (IRR)
Mall 2004	26.0%	19.6%	17.1%
Mall 2005	22.8%	16.5%	16.3%
Mall 2006	26.3%	17.6%	12.7%
Junction 2004	35.6%	24.0%	23.5%
Junction 2005	34.1%	23.3%	22.1%
Junction 2006	18.3%	15.0%	14.7%
X Leisure 2004 (9 months)	18.0%	11.4%	8.9%
X Leisure 2005	28.3%	15.3%	12.0%
X Leisure 2006	30.4%	19.7%	12.0%
German portfolio	34.2%	15.2%	–
FIX UK	37.6%	20.8%*	17.6%

* Excluding acquisition costs

As in previous years we measure our returns using IRR methodology. The IRR benchmarks are calculated by IPD.

Earnings businesses

We continue to give information to help investors value our two earnings businesses CRPM and SNO'zone.

Capital & Regional Property Management (CRPM)

The value of CRPM lies in its management fee stream, and its performance fees, both after deduction of related management costs. The management fee stream is stable and can be valued using a multiple. The performance fees are different in nature. The profit can be split between management and performance fees as follows:

Capital & Regional Property Management business (Note 2a)	2006 £m	2005 £m
Profit and loss account		
Fixed fees	17.0	15.3
Service charge fees	4.6	3.9
Other fees	5.8	3.6
Fixed management expense*	(14.0)	(12.6)
Profit from management fees	13.4	10.2
Mall performance fee	35.5	29.5
Junction performance fee	16.7	17.3
X Leisure performance fee	10.4	4.1
Variable overhead – bonuses, CAP, LTIP	(18.3)	(18.6)
Other non-recurring items	(2.1)	–
	42.2	32.3
CRPM profit before tax	55.6	42.5

* Representing 75% of the total fixed management expenses (based upon management's estimation). The other 25% is allocated against the property investment business. See note 2.

The right to receive performance fees is clearly valuable. Some analysts apply a multiple to past fees; others estimate the NPV of the immediate pipeline plus an option value for fees beyond. Past performance should deliver the Group fees of £62.6 million for 2006 (included as a debtor on the 2006 balance sheet), £44.7 million in 2007 and £22.1 million in 2008 (neither on the balance sheet). The Group's variable overheads, including staff bonuses and management incentive schemes, are paid out of these fees.

The Corporate team

From left: Richard Snooks, Doug McAndrew, Sarah Jones, Falguni Desai

SNO'zone

SNO'zone now operates from three locations and employs 466 people. It bears a full arm s-length rent and involves very little working capital. It can be valued by applying a multiple to the earnings stream.

The accounting adjustments relate to the new Xscape in Braehead which benefited from a nine-month rent free period and a tenant incentive package worth £970,000. The accounting rules require us to spread the benefit over the 25-year period of the lease, rather than in the year in which it was received.

	2006 £m	2005 £m
SNO'zone operating profit (Note 2a)		
Income	13.1	9.3
Expenses	(10.4)	(7.6)
Cash profit	2.7	1.7
Tenant incentives*	(0.9)	—
Accounting profit	1.8	1.7

* This is the carrying value of tenant incentives at 30 December 2006 after amortisation.

Balance sheet, debt and hedging

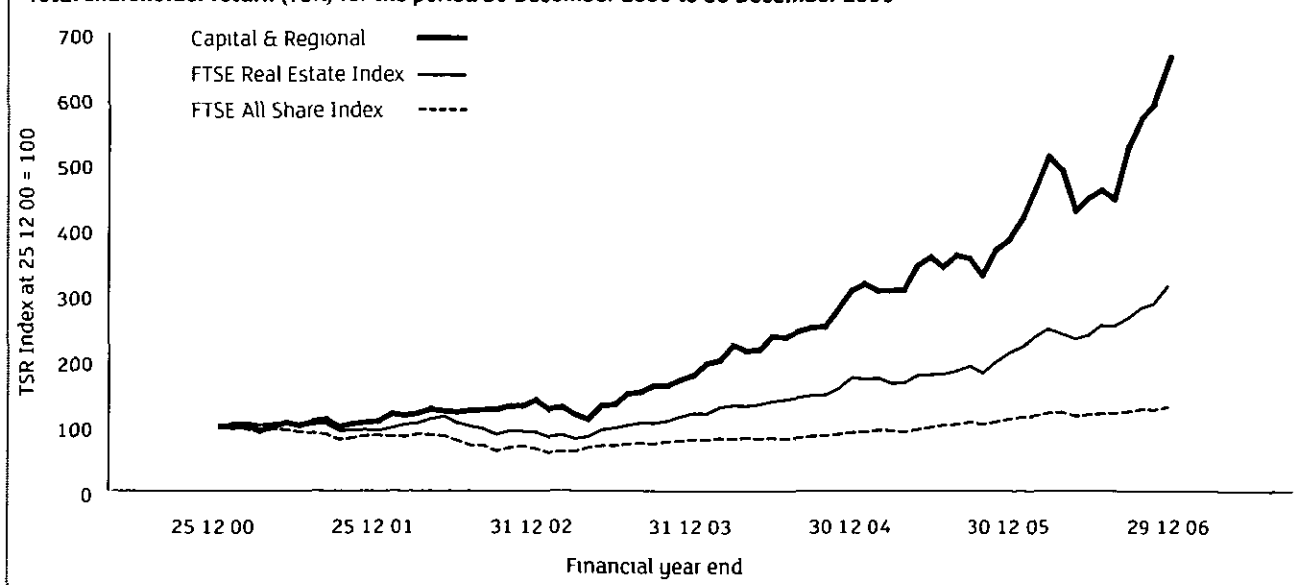
Balance sheet we look at our balance sheet in three ways:

- The enterprise balance sheet shows the £6,497 million portfolio we manage, financed by £913 million of shareholder equity and a further £2,288 million of institutional equity invested directly into our funds.

- The see through balance sheet gives our economic exposure to different market segments and is the one we use for managing the business. It is notable that we have an increasing proportion of our exposure in the German and FIX UK portfolios.
- Our statutory balance sheet follows the accounting rules. Under these rules the three funds and various joint ventures are consolidated on an equity basis. The debt on this balance sheet excludes our share of fund and JV debt.

Three balance sheets	Enterprise £m	See through £m	Statutory £m
Shopping centres	3,185	772	398
Retail parks	1,568	430	245
Leisure property	1,252	359	210
German big box retail	382	359	382
FIX UK	110	110	110
Total property	6,497	2,030	1,345
Working capital	(57)	21	25
Debt	(3,239)	(1,138)	(457)
Net assets	3,201	913	913
C&R shareholders	913	913	913
Fund investors	2,288	—	—
Total equity	3,201	913	913
Loan to value	50%	56%	34%
Gearing (debt/equity)	101%	125%	50%

Total shareholder return (TSR) for the period 30 December 2000 to 30 December 2006



Balance sheet judgements the key judgements in the balance sheet relate to

- 1 Property valuations all of which are carried out by independent valuers For 69% of our property exposure held through the three funds, there is a further layer of scrutiny by the Fund Managers Morley and Hermes
- 2 Development provisioning, it often takes some years after a development is completed before all commercial issues are resolved and judgement is therefore needed on the level of provision required for completion costs
- 3 Tax provisioning it normally takes two or more years after each year end for all tax liabilities to be settled with the Inland Revenue Judgement is needed on the correct level of provision required

Debt our debt at 30 December 2006 can be summarised as follows

Group facilities and drawings (on a see through basis)	2006 facility amount	2006 drawn £m	2005 drawn £m
Working capital facility	136	17	0
Other Group sterling loans	162	160	260
Group Euro loans (our share)	266	266	136
Convertible Loan Stock	1	1	3
Associates (our share)	665	598	507
Joint ventures (our share)	97	96	74
Total	1,327	1,138	980

Our portfolio level bank facilities are typically secured property lending facilities There are opportunities to securitise these portfolios and the £3.1 billion Mall portfolio has already issued £1.4 billion of debt at very low margins of 18-19bps

Our Group bank facility is unsecured, allowing us more flexibility We aim to have at least £20 million "headroom" in our cash flows at all times over the next 6 to 12 months

Cash flow we try to minimise cash held on deposit preferring to repay debt wherever we can At the year end we had £35 million of cash on the balance sheet of which £24 million was awaiting investment in our growing German and Trade Centre portfolios Much of the remainder arose from further distributions from the Glasgow Fort joint venture

The Group's cash flow is strengthened by its income from CRPM and SNO!zone These incoming cash flows cover all our overhead and contribute to paying interest and dividends Performance fees cover our variable overhead and the balance is being reinvested in the growth of the business

Hedging policy the key financial risks managed through our finance teams and fund managers are

- Interest rate movements normally hedged using interest rate swaps as described above Gains or losses on the swaps are shown in the income statement
- Exposure to the euro hedged through euro denominated borrowings or forward exchange contract At the end of the year we had a €115 million FX contract in place Gains or losses on the FX contract will be matched against translation gains or losses on the German portfolio

We have been tracking the growing property derivatives market with interest but we haven't participated in it We have also avoided more complex interest hedging instruments such as swaptions caps and collars See page 76 for more details on our management of financial risk

Treasury statistics the table shows our key statistics over the last five years

Treasury statistics (see through basis)	2006	2005	2004	2003	2002
% of debt fixed or hedged ¹	82.3%	75.1%	72.0%	83.0%	20.5%
Weighted average duration of hedge (months)	48	52	29	69	54
Weighted average interest rate % ²	5.23%	5.10%	5.69%	5.46%	5.45%
Weighted average interest margin % ³	0.67%	0.74%	1.11%	1.08%	1.10%
Interest cover (PBIT/I) ⁴	1.58	1.54	1.63	1.63	1.30
Year end gearing (debt/equity %)	125%	129%	126%	129%	122%
% of euro denominated assets hedged	96%	75%	–	–	–
Fair value of interest rate swaps (before tax)	17.0	(6.5)	0.3	2.8	(6.6)

The table shows that

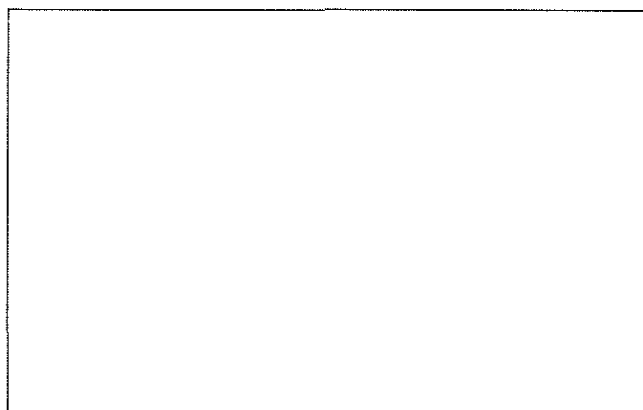
- 1 Interest rate swaps have been used to fix the interest on 82% of our debt (including our share of fund and JV debt), and the average duration of the swaps is 48 months They are valued at £17.0 million which is included in our balance sheet A further £3.1 million of value relating to fixed loans isn't in the balance sheet but is adjusted in our triple net NAV
- 2 Our weighted average interest rate has risen from 5.10% to 5.23% mainly because of the increase in medium term interest rates
- 3 Our weighted average interest margin has fallen from 0.74% to 0.67% reflecting tighter banking margins, and the raising of a further £375 million of Mall bonds at 19bps margin
- 4 Our interest cover has increased to 1.58%

Valuation of interest rate swaps medium term interest rates have risen during the year from 4.53% to 5.40% and as a result our interest rate swaps are valuable

Corporate structure

Standard structure with increasing competition from structured overseas money it is vital that our corporate structure remains competitive. We use a "standard structure" which has the following benefits

- It enables our fund investors to trade fund units without suffering the 4% Stamp Duty Land Tax which is now applied to Limited Partnership interests as well as land transactions
- Our shareholders don't suffer double taxation of capital gains once at company level and again at shareholder level
- Day-to-day management of the portfolio is handled onshore by the limited partnerships, under the direction of the various General Partner Boards



REIT opportunities we are monitoring the opportunities offered by the introduction of a UK REIT regime carefully and have concluded that at present conversion is not in the interests of our shareholders. The main reasons are

- We would fail the 75% "balance of business" test because much of our profit comes from management fees, performance fees and SNO'zone
- Our business might be damaged by operational constraints imposed by rules that are orientated towards passively managed property. We fear that we would be forced into complex structuring if we want to continue to run our own car parks, market halls and ski slopes
- Our co-investments in the three funds would still be subject to Capital Gains Tax under current REIT legislation, although this anomaly may be corrected in the future
- The 22% withholding tax would be an administrative burden for many of our shareholders and in many cases a cost

We nevertheless welcome the introduction of the new regime and hope that it widens access to commercial property investment. We are closely monitoring developments and will take advantage of opportunities as they arise.

International Financial Reporting Standards

This is our first full year using IFRS. The impact on our results is shown in the table below.

IFRS route map	Note	Recurring pre tax profit £m	Profit after tax £m	Net asset value	NAV pence per share
UK GAAP		27.1	39.2	887.5	12.25p
Revaluation uplift	i		166.7		
Deferred tax	ii		(10.9)	(8.2)	(0.11)p
No goodwill amortisation			1.2	2.3	0.03p
Change in fair value of interest rate swaps	iii		23.5	19.8	0.27p
Tenant incentive and lease cost amortisation	iv	2.8			
Reclassification of non recurring element of minority interest share of income	v	2.6	2.6		
Add back negative goodwill				10.6	0.15p
Other		(0.2)		1.1	0.02p
IFRS		32.3	222.3	913.1	12.61p

- (i) Revaluation gains are now included in the income statement
- (ii) Full deferred tax is included in our balance sheet, although it is added back in the EPRA definition of NAV per share
- (iii) Interest rate swaps are revalued annually in the balance sheet and the results put through the profit and loss account
- (iv) Tenant incentives are amortised over the full period of the relevant lease, not the period to the first rent review
- (v) Minority interest arising from group German operations has been reclassified as a liability

William Sunnucks
Group Finance Director

Strategy and objectives

C&R is a co-investing asset manager with teams specialising in retail and leisure property. We have three well established funds in which we co-invest, and a further two in the making. Our objective is to outperform by steadily building our business on a long-term and sustainable basis. We aim to achieve this from organic growth within the existing businesses and from identifying and developing teams in further properties with strong economic fundamentals where active management can add value.

Description of the business

Each of our three funds has its own specialist management team incentivised to produce high returns for the fund investors. In each case the interests of the fund investors are represented by a fund manager.

Our funds	Property segment	Fund manager	Property manager
The Mall	Shopping centres	Morley	CRPM team of 62
The Junction	Retail parks	Morley	CRPM team of 32
X Leisure	Leisure property	Hermes	CRPM team of 32

Two further portfolios are in the assembly stage. We will only seek external capital for them when the portfolios have sufficient scale and track record.

Portfolio	Property segment	Value	Dedicated team
German portfolio	Big box retail	€567m	Two from CRPM - local managers
FIX UK	Trade centres	£110m	Seven from CRPM

In addition we have a number of wholly owned properties and joint ventures. These are only acquired after we have first considered whether they fall into the fund investment criteria. If they do, we offer them first to the fund but there are a number of reasons why they may not meet the fund manager's criteria. We try to restrict ourselves to ventures where our management expertise can add value. The principal ones are listed on page 34.

Asset management and development opportunities

Our portfolios are rich in asset management opportunities which ultimately drive rental growth and investor returns. Most of these are reconfigurations and refurbishments within the existing portfolios and will generate rental growth. We also have a number of more significant development opportunities which are listed in the table below.

Development opportunities	Total capital spending potential*	Significant developments	Significant developments 000 sq ft
Mall	£300m – £350m	Blackburn	100
		Edgware	250
		Wood Green	100
Junction	£250m – £300m	Thurrock	400
		Oldbury	460
X Leisure	£35m – £45m	Four schemes	80
Germany	c £10m	toenissvorst	130
FIX UK	c £10m	Five schemes	150
Other retail park	£65m – £75m	Cardiff	375

* Including refurbishments, reconfigurations and developments

Resources

The Group has the following key resources which assist in the pursuit of its objectives:

People our most important resource by far. We have four largely independent divisions, each with its own CEO supported by leasing, financial and marketing expertise. Business development, tax, corporate accounting and IT are the main functions run by the corporate division. Matters of common interest are discussed at weekly meetings of the executive committee of the Board.

We have 936 people employed on three payrolls: Capital & Regional Property Management for our central teams; Mall People for the At Mall teams and SNO'zone for the people employed by our ski operator at the Xscapes.

Staff numbers	2006	2005
Shopping centres	62	58
Retail Parks including FIX UK	32	24
Leisure	32	27
Corporate	45	38
CRPM employees	171	147
Employed at the Malls	274	288
Employed at the leisure centres	25	17
SNO'zone employees	466	217
Total	936	669

Reputation and corporate culture over 21 years as a public company, an external reputation and internal culture has developed which is believed to be an important resource. The success of Centerpoint Properties Trust, originally a C&R subsidiary, has also given C&R a reputation in the USA.

"Shrewd integrity" are two words which we use to describe our approach to business. Our management is entrepreneurial and sometimes audacious, but we pride ourselves on setting high standards of integrity which enable us to work with the same partners over long periods.

Brands

The Company has developed six brands as follows

Brand	Use
	Shopping centre portfolio
	Retail parks portfolio
	Leisure centre portfolio
	Leisure complexes anchored by ski slopes and cinemas
	Trade centres
	The ski operator at the three Xscapes

Key relationships

Tenant relationships our tenant relationships are of great importance to us. Our largest individual relationships are with Cineworld in our leisure division and B&Q in our retail parks. Our shopping centre business has nearly 1,250 retailers, the largest of which is Boots which accounts for 3.1% of its rent roll. In Germany the Metro Group is an important tenant with which we are beginning to cultivate a relationship via the Hahn group.

Fund investors the institutional investors holding units in our three funds provide two-thirds of the equity on which our business is built. The Mall has 45 such investors, including three from overseas. The Junction has 13 and X-Leisure has 18.

Fund managers our fund managers, with whom we operate the three funds on a day-to-day basis, are also important to our business. Morley Fund Management represents investor interests on the Mall and Junction Funds, and Hermes does the same for the X-Leisure fund. The fund manager contracts are coterminous with our management contracts as follows:

Fund	Manager	Termination date
Mall	Morley Fund Management	31 December 2016 with an option for a further 5 year extension
Junction	Morley Fund Management	31 December 2011 with an option for a further 5 year extension
X-Leisure	Hermes Investment Management	16 March 2016

Our suppliers, professional firms, banks and joint venture partners also play an important and much appreciated role in our business.

Principal risks

Any business has risks and it is our responsibility to manage them. We have identified below seven particular risk areas of which shareholders should be aware:

- **Retail market risks** consumer spending patterns fluctuate and there is always the risk of a systematic downturn and major retailer failures. Our management teams are well prepared to minimise losses and fill vacancies quickly.
- **Property investment market risks** small changes in property market yields can have a significant effect on the value of our portfolio. These issues are monitored closely by the executive team on a weekly basis and reported publicly each month in our fund unit price valuations.
- **Changes in the tax and regulatory environment** our business could be affected by tax law changes, including those directed at overseas investors, or by the increasing burden of regulation. These risks are monitored by the Group Finance Director and Chief Executive.
- **Loss of key management** our property management business is dependent on the active management skills of a small number of people, whose departure could adversely impact the business. This risk is mitigated by the development of a next generation of management and through the Company's long-term remuneration schemes, which defer payments for two to three years and align shareholder and management interests.
- **Development risks** we have a substantial development programme both inside and outside our funds. This activity is subject to significant market, construction and commercial risks, which we mitigate by pre-letting a high proportion of the space and negotiating fixed price building contracts.
- **Interest rate risks** interest rate changes impact our cash flow. We normally use interest rate swaps to hedge between 50% and 100% of the risk for an initial period of about five years.
- **Internet retailing and hypermarket diversification** there are well publicised fears about trade diversion from traditional retail outlets to the internet and major supermarkets. We follow these trends carefully, and have ongoing research programmes that illustrate significantly differing actual purchasing habits by sector.

Post balance sheet events

Details of the post balance sheet events are set out in Note 30 on page 82.

“Since its formation in March 2002, the Mall has outperformed its benchmark in every year, as it has again in 2006. Our direct, active operational management approach to shopping centres continues to work well.”

Kenneth Ford, Chief Executive – The Mall

What is the Mall?

The Mall is the UK's Community Shopping Centre Brand. The Mall Fund owns and operates approximately 10% of the UK's covered retail space making it the largest portfolio of branded shopping centres in the UK. It is managed by a dedicated team of 62 from Capital & Regional's Mall Corporation.

The Fund was formed in March 2002 with just two investors – the Capital & Regional Group and clients of Morley Fund Management. New investors have come in as the portfolio has expanded and a secondary market for the units has developed. The fund now has 45 investors, including three overseas institutions.

Our Malls have all been acquired under the following investment criteria

- Town centre locations
- Dominant in localised town catchments or strong in metropolitan catchments
- Minimum 150 000 sq ft lettable area
- Car park or public transport facilities
- Covered or able to be
- Tenant profile “mass market” or “value” retail
- Revenue and capital growth potential
- Value adding management opportunities

The Mall	At 30 December 2006	At 30 December 2005
Gross property asset value	£3 125m	£2 338m
Number of properties	23	21
Number of lettable units	2,404	2 118
Initial property yield	4.56%	5.09%
Equivalent yield	5.21%	5.73%
Number of investors	45	36
C&R share	24.2%	26.1%
Debt	£1,500m	£1 062m

Our management approach

We regard The Mall as a business, not just a portfolio of assets. Each Mall is more than a collection of shops; it is a venue at the heart of its community. Local people serving local people. We aim to recruit General Managers with retail experience, and to place them at the centre of our operation. Each Mall has access to marketing, financial, HR, IT and surveying expertise located at our London and Glasgow offices. Our objective is to provide and promote a clean, safe and stimulating shopping environment, with the retail mix relevant to each local community. We both create the right space for retailers, and create, manage and market an exciting branded retail environment for our shoppers.

Our strategy

There is a significant opportunity to enhance investor returns from further expansion of the portfolio. We are already seeing scale benefits in terms of financing, branding, ancillary incomes and co-operation with retailers and other commercial partners on a portfolio basis. When we buy an extra centre we have a distinct competitive edge – we can immediately link it to our management system, and take steps to improve the retail offer.

In order to raise the equity to increase the size of the portfolio we need to continue to outperform and to further build up our management infrastructure.

The Mall Executive team

From left: Kenneth Ford, Gaynor Gillespie, Mark Bourgeois, John Wood, Richard Stubbs

The retailer market

We have enjoyed a "business as usual" retailer market during 2006. We have seen fewer retailer failures than 2005 and footfall has held up well. We have survey evidence based on nearly 50,000 customer interviews to show that there has been an increase in spend per visit at our Malls up 18% on 2005 on a 1.8 times per week shopping visit frequency.

In the current competitive climate we believe our relatively low unit rental (average unit rent £69,000 pa) coupled with the cost effective Mall direct management approach enables retailers to trade profitably at Mall locations.

Top five Mall tenants by rental income

	No of units	% of rent
Boots	20	3.06
Arcadia	37	3.01
Clinton Cards	33	2.48
Superdrug	18	1.90
Woolworths	10	1.88

The shopping centre investment market

There has been debate about whether the low yields are sustainable in the long term. One view is that the fall in equivalent yields from 7.3% in 2000 to 5.3% will now reverse, especially now that interest rates are rising. An alternative view would suggest that yields have fallen in line with real returns available on other real asset classes. While yields on index linked gilts remain at 1.5%-2%, shopping centre yields of 4-5% are easily justifiable.

Acquisitions and disposals

In January 2006 the Mall completed the purchase of four shopping centres for a total of £535 million in Luton, Uxbridge, Redhill and Bradford, all sourced off market. It sold Redhill and Bradford shortly after purchase as it was judged these centres would not contribute positively to investor returns.

Our performance pipeline

Our 2007 business plan includes capital expenditure of £347 million over the next five years. This statistic illustrates the volume of asset management opportunities within the portfolio – our performance pipeline. Even the centres we have owned the longest, at Aberdeen (first acquired by C&R in 1993) and Wood Green (1996) are still generating new opportunities.

These opportunities are driven by continuing changes in retail formats. Some chains are growing with new formats, others declining and willing to give up space. Changes in supply chain management have meant that traditional service yards and storage areas are becoming redundant and can be converted to revenue

generating space. Expansion opportunities can also arise through the acquisition of neighbouring properties.

This capital expenditure envisaged is relatively low risk. Where possible we build to demand with a substantial element of preletting. Our construction contracts are in the main fixed price. In consultation with The Mall Fund Manager, our appraisal regime estimates the required returns before the expenditure is undertaken.

Fund debt

The financial strength of the Mall is clearly illustrated by its success in the bond market. In May 2005 it issued £1,066 million of Mall Bonds which were rated AAA by all three rating agencies. In September 2006 a further £375 million were issued. The interest rates payable on these issues were Libor +0.18% and +0.19% respectively, offering investors a significant saving over bank debt.

The fund has also used interest rate swaps to fix its interest on £1,260 million of its debt for an average period of 5.5 years, giving it a weighted average cost of debt of 5.09%.

Corporate structure

The Malls are owned by a limited partnership which is managed by Morley Fund Management and Capital & Regional Property Management through the General Partner. The Limited Partner interests are held by The Mall Jersey Property Unit Trust, resident in Jersey. Units at this level can be traded without payment of Stamp Duty Land Tax or any other transfer taxes.

The Mall's debt is sourced through Mall Funding plc, a securitisation vehicle which issues bonds and lends the proceeds on to the Mall. The bonds are quoted on the Irish Stock Exchange.

Performance

Fund performance over the last three years	Gearred return (IRR)	Ungeared return (IRR)	Benchmark return (IRR)
Mall 2004	26.0%	19.6%	17.1%
Mall 2005	22.8%	16.5%	16.3%
Mall 2006	26.3%	17.6%	12.7%

The Mall Fund has outperformed its benchmark in every year since its formation, sometimes by significant amounts. This continued in 2006 with an ungeared return nearly 5% above the benchmark. Fund investors enjoyed a geared return of 26.3%.

The Mall properties

Shopping centres	Description	Size (sq ft)	Car park spaces	Principal occupiers	Number of lettable units
Valued at £50 million to £100 million					
The Mall Aberdeen	Freehold single level covered shopping centre	190 000	400	Debenhams Argos HMV Superdrug and Ottakers	36
The Mall Barnsley	Leasehold covered shopping centre on two floors	180 000	519	TK Maxx Peacocks Next Primark and Woolworths	49
The Mall Edgware	Freehold single level covered shopping centre	192 000	1 100	Marks & Spencer Sainsbury's WH Smith Next Boots and HMV	55
The Mall Gloucester	Leasehold covered shopping centre on two floors	191 000	400	H&M Marks & Spencer Woolworths USC Republic Sports Soccer Market and MK One	73
The Mall Romford	Leasehold covered shopping centre on three floors	180 000	1 000	Asda Wilkinson Peacocks McDonalds Toni & Guy and Superdrug	54
The Mall Southampton	Freehold covered shopping centre on two floors	201 000	810	Matalan Fopp Records The Disney Store and Poundland	93
The Mall Walthamstow	Leasehold covered shopping centre on two floors	260 000	870	Asda BHS Boots Dixons HMV Top Shop and Top Man	71
Valued at £100 million to £150 million					
The Mall Bexleyheath	Leasehold single level covered shopping centre	423 000	800	M&S Bhs Woolworths WH Smith Boots HMV and Next	90
The Mall Epsom	Leasehold single level covered shopping centre with 55 000 sq ft of offices	372 000	800	Dickins & Jones Marks & Spencer Waitrose Superdrug WHSmith H&M and HMV	93
The Mall Falkirk	Freehold covered shopping centre on two floors	170 000	400	Marks & Spencer Debenhams Desire Argos Woolworths River Island Boots and HMV	72
The Mall Ilford	Freehold covered shopping centre on three floors	290 000	1 200	Marks & Spencer Debenhams HMV TK Maxx WH Smith and Woolworths	105
The Mall Preston	Freehold covered shopping centre on three floors	287 000	400	Marks & Spencer H&M Superdrug New Look Wallis Vision Express and WH Smith	116
The Mall Uxbridge	Leasehold single level covered shopping centre with 40 000 sq ft of offices	480 000	1 150	Marks & Spencer Tesco TK Maxx Peacocks and Wilkinson	120
Valued at £150 million plus					
The Mall Blackburn	Leasehold partially covered shopping centre on three floors	505 000	1 078	Debenhams Tesco Boots Argos BHS and Woolworths	156
The Mall Bristol	Leasehold covered shopping centre on three floors	339 000	1 000	TK Maxx Boots Argos Woolworths WH Smith Waterstones and Virgin	160
The Mall Camberley	Part leasehold covered shopping centre on one floor	394 000	1 040	Argos Army & Navy Boots Littlewoods Sainsbury's and Woolworths	186
The Mall Chester	Leasehold single level covered shopping centre	242 000	521	Debenhams River Island H&M Laura Ashley Principles Top Shop Top Man and The Pier	121
The Mall Luton	Leasehold covered shopping centre on two floors offices extending to over 65 000 sq ft	892 000	2 300	Debenhams Boots HMV Next Top Shop and Top Man	163
The Mall Maidstone	Freehold covered shopping centre on three floors with offices extending to 40 000 sq ft	550 000	1 050	Boots BHS TJ Hughes and Wilkinson	119
The Mall Middlesbrough	Freehold single level covered shopping centre with offices extending to over 50 000 sq ft	423 000	550	Boots BHS WHSmith Top Shop New Look George and H&M	95
The Mall Norwich	Freehold covered shopping centre on six floors	371 000	800	Argos Boots H&M TK Maxx George Mothercare New Look Virgin Megastore and Vue Cinemas	124
The Mall Sutton Coldfield	Freehold partially open shopping centre on a single level with offices extending to approximately 30 000 sq ft	550 000	960	House of Fraser BHS Marks & Spencer Woolworths Boots Argos and WH Smith	130
The Mall Wood Green	Freehold partially open shopping centre on two floors with nearly 40 000 sq ft of offices	617 000	1 500	Cineworld Pearsons Department Store TK Maxx Wilkinson Peacocks Woolworths HMV Boots Argos and WH Smith	123

“During 2006 we commenced a series of initiatives to reposition the portfolio, creating a strong base for future growth in what we anticipate will be a changing retail park market. The initiatives included portfolio restructuring, investment in the properties and an increasing development exposure.”

Andy Lewis-Pratt, Chief Executive – The Junction

What is the Junction?

The Junction Fund is a specialist retail warehouse fund with a dedicated in house management team. It owns a £1.6 billion retail park portfolio which includes significant development opportunities. The investment criteria are:

- At least 80,000 sq ft multi-let retail park freehold or long leasehold
- Planning consent for open A1 bulky goods or a mix thereof
- Value enhancement opportunities
- Either the dominant scheme in local catchment or ability to become so

The Junction	At 30 December 2006	At 30 December 2005
Gross property asset value	£1,590m	£1,459m
Number of retail parks	16	19
Number of units	233	258
Initial property yield	3.29%	3.50%
Equivalent yield	4.45%	4.87%
Number of Investors	13	7
Capital & Regional share	27.3%	27.3%
Bank debt	£696m	£686m

Market segments

Retail warehousing can be split into four categories

Fashion parks These properties have open A1 planning (this consent allows any sort of retailing) are occupied predominately by typical high street fashion retailers and are a dominant retail destination

Prime retail parks These properties have open A1 or bulky goods planning (or a mixture of the two) Bulky goods consent generally allows the sale of goods that cannot easily be carried away by the customer with occupiers typically including DIY chains such as B&Q and Homebase furniture and carpet retailers and electrical outlet stores

Retail parks with open A1 planning often have a mixture of bulky goods and open A1 retailers with the latter including operators who only tend to trade out of town The properties are also well located and are dominant within their catchment or capable of dominance

The open A1 units will remain easier to let and thus we expect further rental growth from this expanding market There is an oversupply of bulky goods space as new space has been built and tenants have consolidated but we anticipate rental growth can be achieved through a number of initiatives that we have identified on a location by location basis

The Junction team

From left: Andrew Lewis, Pratt, James Boyd-Phillips, Graham Inglis, John Gatley

Secondary retail parks These properties in most cases have a bulky goods consent, have vacant space and are dominated by competing schemes

Solus units These properties are single let properties and tend to have a bulky goods consent

The Junction Fund has never had solus units although these are in its benchmark index

During 2006 The Junction sold the retail parks it considered to be secondary and now has a portfolio of more dominant parks which are positioned for future market developments

Market developments

The out-of-town retail park sector has seen strong returns for 2006 as weight of money and investor demand continued to support a number of deals at high prices particularly during the summer. Investors were attracted to the sector as sustained rental growth for retail warehousing was still anticipated. However we believe the investment market is now changing, particularly with the potential for yields on secondary stock to weaken.

Opportunities for rental growth are seen to be strongest for fashion parks. Rental growth will also be seen in prime retail parks which benefit from either an open A1 or bulky goods planning consent. Little or no growth in rents is anticipated for solus and secondary properties due to vacancies and lack of tenant demand.

Top five tenants by rental income

	Units	%
1 B&Q	6	14.53%
2 DSG Retail	12	7.56%
3 Comet	11	5.80%
4 Wickes	4	5.75%
5 Homebase	3	4.49%

Development and reconfiguration opportunities

These exist throughout the portfolio. Our 2007 business plan shows capital expenditure in excess of £200 million over the next three years. This can be split between:

- Refurbishments where space is upgraded for existing tenants e.g. Portsmouth
- Reconfigurations where we change the tenant mix and build new space to suit the requirements of new tenants e.g. Oxford
- Redevelopments. We have two major schemes in gestation: one in Oldbury and one in Thurrock.

Refurbishments and reconfigurations are normally low risk, as we have pre-lets in place and a fixed price building contract. Our in-house development team manages risk on the developments carefully and will not go ahead without an acceptable level of pre-let fixed-price building contracts and appropriate development finance.

Oldbury The scheme comprises 460,000 sq ft of planning consent covering retail warehousing, food and beverage, leisure and offices. A revised consent was secured at the end of 2006. Site assembly is continuing with the majority of the remaining acquisitions under contract. Pre-letting has commenced with 25% contracted or in negotiation and a construction start targeted for Q3, 2007.

Thurrock The property currently comprises over 400,000 sq ft of existing retail warehousing. A major redevelopment opportunity is being progressed for our existing holding and an adjacent site. However, this is unlikely to commence until late 2008.

Performance

The Fund is benchmarked against the IPD retail parks index, which includes a number of fashion parks which performed strongly in 2006. The Fund slightly outperformed for the year showing investors like for like rental growth of 3.6%, a highly satisfactory geared return of 18.3% and outperformance over a rolling three year period.

Fund performance over the last three years	Geared return (IRR)	Ungeared return (IRR)	Benchmark return (IRR)
Junction 2004	35.6%	24.0%	23.5%
Junction 2005	34.1%	23.3%	22.1%
Junction 2006	18.3%	15.0%	14.7%

The Junction properties

Retail park	Description	Size (sq ft)	Car park spaces	Principal occupiers	Number of lettable units
Valued at below £50 million					
Renfrew Retail Park, Renfrewshire	Mixed retail warehouse and industrial scheme	57 089	n/a	Pets at Home	4
Broadwell Industrial Estate, Oldbury	Development site with retail and leisure consent	37 065	n/a	n/a	6
The Junction Blackpole Retail Park, Worcester	Retail warehouse park	89 270	514	Cornet LIDL Carpetright DSG	8
Valued at £50 million to £100 million					
The Junction Ocean Retail Park and Victory Industrial Estate, Portsmouth	Retail warehouse park with adjacent industrial estate	227 099	705	Homebase DSG Halfords Toys R Us	17
The Junction Great Western Retail Park, Glasgow	Retail warehouse park located adjacent to a Sainsbury's supermarket and opposite a leisure park	184 785	1 518	B&Q DSG JJB SCS	10
The Junction Abbotsinch Retail Park, Paisley	Retail warehouse park	184 581	649	B&Q DFS Comet Land of Leather	6
The Junction St Georges Retail Park, Leicester	Open A1 retail warehouse park	169 372	512	DSG Next Toys R Us Mothercare	12
The Junction Kittybrewster Retail Park, Aberdeen	Retail warehouse park benefiting from open A1 non food planning permission	141 677	883	TK Maxx Halfords Sportsworld DFS	13
The Junction Templars Retail Park, Oxford	Retail warehouse park with the benefit of open A1 non food planning permission	136 685	485	B&Q Halfords Comet TK Maxx	6
The Junction Cambridge Close Retail Park, Aylesbury	Retail warehouse park	193 323	650	Wickes Comet Argos Sportsworld	15
The Junction Wembley Retail Park, Wembley	Located directly north of the new National Stadium the scheme comprises an industrial and retail warehouse park	255 795	452	MFI Carpetright Comet Halfords	27
The Junction Slough Retail Park, Slough	Retail warehouse park	152 929	546	Homebase Wickes DFS Land of Leather	7
Valued at £100 million to £150 million					
The Junction South Aylesford Retail Park, Maidstone	Retail warehouse park	167 280	551	Homebase Comet BHS Halfords Currys	10
The Junction Morfa Retail Park, Swansea	Retail park with planning consent for bulky open A1 non food food A3 units and leisure	332 912	1 074	B&Q TK Maxx Next New Look Sportsworld	16
The Junction Telford Forge Retail Park, Telford	Open non food A1 retail warehouse park	312 857	1 343	Next Tesco Home Plus Arcadia TK Maxx Boots	19
The Junction Imperial Park, Bristol	Retail warehouse park with a mixture of bulky and open A1 non food planning. It has planning permission for further development	281 449	1 200	B&Q Woolworths Tesco Home Plus JJB Argos	10
The Junction St Andrew's Quay, Hull	Retail warehouse park	350 571	1 315	B&Q DFS Comet DSG	24
Valued at above £150 million					
The Junction West Thurrock Retail Park, Essex	Open A1 non food retail park	461 449	1 646	Decathlon Asda Living TK Maxx Furniture Village	23

“2006 was an outstanding year for us, with a consistent performance across the portfolio. Leisure destinations have grown phenomenally in popularity over the past few years, both with consumers and investors.”

PY Gerbeau, Chief Executive – X-Leisure

What is the X-Leisure Fund?

The X-Leisure Fund is the largest UK specialist fund investing in leisure property. It has been built up using the following investment criteria:

- 50% or more of rental income generated from leisure operators
- Either is or is able to be anchored by a cinema
- Potential to become the major park in the catchment
- Active management opportunities or latent performance potential to deliver required performance

The Fund was created in 2004 through the amalgamation of three leisure funds previously set up and managed by Marylebone Warwick Balfour. Capital & Regional Property Management was appointed Property and Asset Manager and Hermes Investment Management Limited Fund Manager.

At inception the Fund had assets under management of £503 million and 10 investors. As at December 2006 the Fund had grown to £807 million through organic and external growth and the investor base expanded to 18.

X Leisure	At 28 February 2007 (est.)	At 30 December 2006	At 30 December 2005
Gross property asset value	£917m	£807m	£702m
Number of properties	18	17	17
Number of units	350	285	283
Initial property yield	4.86%	4.99%	5.68%
Equivalent yield	5.58%	5.94%	6.32%
Number of Investors	18	18	17
C&R share	20.0%	10.6%	10.7%
Bank debt	£444m	£403m	£395m

Management approach

The specialist leisure team at C&R brings a range of skills to the portfolio – not just active property management. Three members of the team have previously worked on Eurodisney Paris and on the turnaround phase of the London Dome. Their operational skills and “destination” expertise are proving invaluable in the management of the portfolio and the enhancement of the visitor experience.

The Marketing and Events function is delivered in totality by an “in house” team with creative marketing, events and production backgrounds. As a result none of the valuable marketing budget is expended on external agents and consultants in either the strategy or delivery process. The entire budget can be directed at the destination and limited marketing budgets are therefore stretched to their maximum delivering full programmes of footfall enhancing events and promotions and awareness raising campaigns.

The benefit of such a specialist non-property team as well as the dedicated and experienced property team, with their exceptionally strong tenant relationships is demonstrated by the enhanced performance that has been delivered under their management

Portfolio activity

Cinemas During 2006 the Fund made two cinema acquisitions both just under £10 million. One in Sixfields Northampton was subsequently sold at a profit as the neighbouring leisure interests could not be acquired and a lone cinema unit doesn't meet our investment criteria. However the second in the heart of the Fund's ownership in Brighton Marina was important to ensure the continued positioning of the cinema as the dominant multiplex in Brighton and Hove and importantly to facilitate the larger residential developments planned for the Marina.

The X-Leisure team

From left: PY Gerbeau, Pierre Hardy, Arnaud Palu, Robert Warner, Polly Farrell, Alastair Bell

Xscapes In February 2007, the Fund acquired Xscape Milton Keynes and Xscape Castleford through a part cash and part unit deal with a total transaction value of £192 million. These are considered to be two of the best leisure destinations in the UK and will greatly enhance the Fund's portfolio.

For C&R this was a merger of its interests in three separate holdings into one. It accepted units in exchange for its partnership interests and as a result has increased its interest in the Fund from 10.6% to 20.0%.

Star City In December 2006, the Fund exchanged contracts for the sale of Star City Birmingham for £85.5 million. Completion took place in January 2007 at a price well ahead of valuation and showing a £13.7 million gain over its March 2004 value. This disposal was in line with the Fund's active management strategy and reduced its asset weighting in the Midlands area.

Rent reviews across the portfolio 26 rent reviews were settled and 23 new leases completed. The reviews averaged 9.14% more than the December 2005 rental value. Rental value growth has also been strong across the portfolio, especially for restaurants and bars. The total rental value of the portfolio across all sectors, on a like for like basis but including new developments, increased by 3.64% over the 12 month period.

Voids the portfolio continues to enjoy relatively low voids and as at December 2006 vacancies represented 3.19% of estimated rental value. This compares favourably with the IPD Universe where voids stand at 6.3% of rental value.

Top five X-Leisure tenants by rental income

Tenant	Number of units	Net income %
Cine UK	9	15.1%
Vue	3	7.1%
Odeon	3	4.3%
Spirit Group Retail Limited	6	2.4%
Tenpin Ltd	3	2.4%

Note: the table excludes

i) Homebase and Sainsbury's leases at O2 Finchley

ii) Star City, now sold

The commercial leisure property market

We have a positive sentiment towards commercial leisure property and believe that the sector will continue to benefit from yield compression in 2007. Indeed two early transactions in 2007 demonstrate that there could be further yield compression within the leisure sector.

We do not expect the restaurant sector to suffer materially from the indoor smoking ban that comes into force on 1 July 2007. Undoubtedly the bars and nightclubs will face challenges and we are addressing this by the construction, wherever feasible, of outdoor space.

The bowl sector has been attracting attention from the venture capitalist funds and after a few years of limited competition for sites and therefore limited or negative rental growth, the right sites matching the operators' requirements are now commanding competition which is fuelling rental growth. We believe this is likely to continue into 2007.

As always, relative outperformance will come from asset management and the underlying key fundamentals of location, building and supply. The focus for the team is to deliver on the initiatives within the business plan which add rental income and rental value and ensure continued capital growth without a reliance on yield compression to deliver performance.

Performance

There is no directly comparable leisure benchmark, and we therefore set an absolute performance hurdle of 12% as our objective.

In 2006, the X-Leisure Fund delivered its strongest performance to date at 30.4% for the year to December 2006. This positions the Fund in the top quartile of both the AREF and IPD universe.

Since inception in March 2004, the Fund has consistently outperformed the hurdle benchmark of 12% per annum at both geared and ungeared levels.

Fund performance over the last three years	Geared return (IRR)	Ungeared return (IRR)	Benchmark return (IRR)
X Leisure 2004 (nine months)	18.0%	11.4%	8.9%
X Leisure 2005	28.3%	15.3%	12.0%
X Leisure 2006	30.4%	19.7%	12.0%

The X-Leisure properties

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Valued at less than £25 million				
Lockmeadow Maidstone	This destination is home to the 700 year old Maidstone Lockmeadow Market as well as many leisure facilities	139 780	Odeon Cinema Luminar Leisure David Lloyd	10
Queen's Links Aberdeen	This leisure park adjoining The Beach Esplanade features a cinema bingo and numerous restaurants	128 081	Cine UK Gala	9
Bentley Bridge Wolverhampton	Comprises a multiplex cinema bars and restaurants	108 843	Cine UK	9
Boldon Leisure Park, Tyneside	Cinema & restaurant complex adjacent to Asda	53 592	Cine UK McDonalds Frankie & Bennys	3
Valued at £25 million to £50 million				
Fountain Park Edinburgh	Edinburgh's premier leisure destination	232 997	Cine UK Tenpin Virgin Active Mecca Bingo Stanley Casinos	12
West India Quay Docklands London (50%)	This listed building contains bars restaurants multiplex cinema health and fitness centre and the Museum of Docklands	70 857	Cine UK LA Fitness	17
Grants Croydon	This restored listed building contains a multiplex cinema bars nightclubs and restaurants	149 002	Vue Cinema Holmes Place	10
Parrs Wood Manchester	This centre has a mixture of facilities including family restaurants health and fitness bowling multiplex cinema bingo and a hotel	234 286	Cine UK Holmes Place Ten Pin	11
Eureka Park, Ashford	This centre comprises multiplex cinema family restaurants health and fitness a nursery and a hotel	101 826	Cine UK Travelodge Living Well	9
Tower Park Poole	Comprises a range of attractions including a multiplex cinema bingo bowling a water park and family restaurants	206 148	Empire Bowlplex LA Fitness	16
Cambridge Leisure Park Cambridge	This centre has a multiplex cinema health club bowling a hotel and range of bars and restaurants	147 024	Cine UK LA Fitness Tenpin	20
Great North Leisure Park, North Finchley London	Comprising a multiplex cinema bowling restaurants and a swimming pool	88 185	Vue Cinema Hollywood Bowl	7
Valued at £50 million plus				
Star City Birmingham*	Featuring the UK's largest multiplex cinema and largest casino in Europe a health and fitness club restaurants bars lifestyle retail and family entertainment	392 985	Vue Cinema Ten Pin Stanley Casino Holmes Place	30
02 Finchley Road London	This "great outdoors" themed centre houses the largest free indoor aquarium in the UK	271 620	Vue Cinema Sainsburys Esporta	23
Brighton Marina Brighton	The marina combines a mix of retail leisure and residential a working harbour and yacht moorings	339 325	Cine UK Bowlplex David Lloyd	75
Riverside Norwich	This entertainment centre comprises bars restaurants nightclubs multiplex cinema and bowling	197 638	UCI Hollywood Bowl Luminar Leisure	13
Fiveways Birmingham	In central Birmingham Fiveways comprises a cinema casino restaurants and late night bars	186 345	Cine UK Grosvenor Casino	11

* As at 30 December 2006 the sale of Star City had exchanged but did not complete until 15 January 2007

“In 2006 we were delighted to more than double the size of our German portfolio and with the returns we produced We have expanded our UK based management team which will drive growth and management opportunities in the future ”

Xavier Pullen

Our German portfolio

We acquired our first German assets in 2005. Our portfolio has now increased to €567 million comprising 44 properties. Our investment criteria have been

- Established out-of-town retail locations
- Large stand-alone hypermarkets and retail parks with sales area of more than 3 500 sq m (current average 9 200 sq m) with substantial land and car parking
- Strong covenants
- Shorter leases preferred leading to asset management opportunities

	At 30 December 2006	At 30 December 2005
German portfolio		
Gross property asset value	€567m	€198m
Number of properties	44	13
Initial property yield (inc development land)	6.0%	6.6%
C&R share	92.2%	87.4%
Bank debt	€419m	€149m

Why Germany?

Our expansion into Germany has been management led and focused on a specific market segment. We identified the expertise of the Hahn Group and this led to the focus on big box edge-of-town retail which has the following attractions

- Severe restrictions on further out-of-town development
- Good tenant covenants and long leases
- Index linked rents
- High yield off low rental value base

We are continuing to expand the portfolio, and we will look at ways of accessing third-party equity when the scale of the portfolio and our track record permit.

Our main tenants

Our German out-of-town retail investments differ markedly from our UK portfolio. We have concentrated on stand-alone retail units with the emphasis mainly on food stores and some DIY.

German portfolio includes

Aachen-Brand	Mörfelden
Selm	Hoesbach
Leipheim	Trier-Kenn
Kirchheimbolanden	Oschersleben
Heide	Stadthagen
Balingen	Tönisvorst
Köln Gremberg	Krefeld
Brühl	Elchingen
Herne	Bremen (Haferwende)
Sinzheim	Cottbus-Gallinchen
Ingelheim	Rangsdorf
Lübeck	Bremen
Sobernheim	Magdeburg
Leverkusen	Velten
Bochum	Bonn-Beuel
Dortmund	

The Germany team

From left: Xavier Pullen, Wilhelm zu Wied, Christoph Friedrich

Top four tenants by floorspace

Principal tenants	% floorspace
Metro and subsidiaries (Real Extra)	29.4%
AVA & Edeka (Linked Co operatives)	6.6%
Praktiker	7.1%
Plaza (Coop Schleswig Holstein)	8.4%
Others	48.5%
	100.0%

When Walmart sold its German business in 2006 our four Walmart stores were absorbed by the German retail giant Metro and are currently being rebranded as Real stores. As a result our portfolio covenant exposure to the Metro Group increased by 13% to 29.4%.

Lease length distribution**Market conditions**

There are signs that consumer spending is increasing, initially boosted by the 2006 World Cup. The 3% increase in VAT was a potential setback but it seems to have been absorbed by retailers and consumers alike.

Since we started investing, values have risen substantially, driven by an influx of overseas capital. We are continuing to see interesting opportunities from which we can achieve attractive returns.

Asset management opportunities

With our team and our partners, we are now well equipped to drive our German expansion forward.

Examples of two of the larger opportunities are as follows:

- At Lubeck we co-operated with a tenant on an expansion and refurbishment project. We invested a total of €13.76 million, increasing the passing rent and adding significantly to the value of our investment.
- At Tönisvorst near Düsseldorf we have acquired a 17 hectare site including a brand new state of the art retail park anchored by Real (Metro) with additional land which gives substantial scope for further development over time. We are talking to potential tenants and occupiers on parts of the land whilst working with the local authority to further enhance this superior location.

Performance

The performance of our German portfolio is shown below:

Portfolio performance 2006	Gearred return (IRR)	Ungearred return (IRR)	Benchmark return (IRR)
German portfolio	34.2%	15.2%	n/a

Germany properties

Location	Principal tenant	Area (sq m)	C&R share
13 non core properties with individual values less than €3m		22 596	100%
Valued at €3m to €10m			
Aachen brand	Praktiker	2 786	85.41%
Kirchheimbolanden	Hit	2 473	85.41%
Lerphelm	Edeka	3 222	83.70%
Selm	Edeka	3 602	85.41%
Heide	Marktkauf	4 620	85.41%
Leverkusen	Edeka	4 999	90%
Bonn Beul	Metro	5 820	100%
Bremen	Extra	2 381	100%
Magdeburg	Edeka	2 954	100%
Velten	Rewe	2 845	100%
Valued at €10m to €20m			
Balingen	Toom	7 457	85.41%
Herne	Toom	7 412	90%
Köln Gremberg	Real	8 986	90%
Ingelheim	Real	10 245	90%
Brühl	Real	20 187	85.41%
Oschersleben	Marktkauf	10 484	80.82%
Bochum Langendrier	Kaufland	6 388	76.05%
Sobernheim	Real	7 387	83.61%
Hösbach	Globus	12 838	90%
Stadthagen	Hagebau	10 913	90%
Elchingen	Real	7 433	100%
Valued at €20m to €50m			
Sinzheim	Real	16 536	90%
Moerfelden	REWE	12 763	90%
Lübeck	Plaza	29 077	90%
Trier – Kenn	Real	11 634	90%
Bremen Haferwende	MGL	54 391	100%
Cottbus	Praktiker	29 884	100%
Rangsdorf	Roller	18 506	100%
Krefeld	Praktiker	11 697	100%
Valued at €50m to €100m			
Dortmund	Real	37 166	85.32%
Tönisvorst	Real	18 917	100%

“We are building our FIX UK trade centre portfolio and are very encouraged by the reception we are getting from existing and new tenants alike. We see great opportunities to expand our operations ”

Xavier Pullen

What is FIX UK?

FIX UK is the brand name for C&R's portfolio of trade centres. We are currently expanding the portfolio and creating a proactive management team. At present it is wholly owned by C&R, but we will consider including other investors when this is justified by its track record and size.

Trade centres

A trade centre is generally made up of a number of units occupied by tenants mainly servicing trade buyers such as builders, plumbers, joiners and electricians. The majority of the occupiers require a standard industrial consent. However, a number of others require a slight widening to allow counter sales.

The investment criteria agreed for the acquisition programme are

- A multi-let industrial / trade centre
- Minimum area of 20 000 sq ft
- Catchments of no less than 50 000 people within a 20 minute drive time
- Strategically strong location – e.g. adjacent to main road
- Planning for an industrial or trade centre use

Key statistics

FIX UK	At 28 February 2007 (est.)	At 30 December 2006	At 30 December 2005
Gross property asset value	£143m	£110m	£68m
Number of properties	33	24	18
Number of units	195	166	145
Initial property yield	4.70%	4.51%	5.50%
Equivalent yield	5.69%	5.72%	6.37%
C&R share	100%	100%	100%
Bank debt	£79m	£70m	£50m

Active management

We employ seven people focused on growing and managing the portfolio. They are also working hard to develop key relationships by working with nationwide tenants such as Wolseley, Kingfisher, Howden Joinery, the Grafton Group, Magnet, HSS Hire and the BSS Group.

Top five tenants by rental income

Tenant	Number of units	Percentage of rental income
Howden Joinery	9	6.99%
Multi Tile Ltd (Topps Tiles)	7	6.86%
Selco	1	5.86%
Booker Cash & Carry	2	5.73%
Magnet	4	4.13%

The FIX UK team

From left: Bruce Ruddle, Jo Lord

Acquisitions and disposals

During the year, the business acquired eight properties and sold two which did not meet our investment criteria. Since the year end we have acquired a further nine bringing the total portfolio to 33 properties.

The growth of the portfolio over 2006 has been a very positive story despite a very competitive investment market with many acquisitions being secured off market. The lot sizes range from £2 million to £10 million with the majority of stock being purchased from regional developers and private individuals.

FIX UK is aiming to continue to grow the portfolio significantly throughout 2007 maintaining its position as the largest and most progressive manager of trade centres in the UK.

Performance

For internal purposes we benchmark the portfolio against the IPD Standard Industrial index. During 2006 the portfolio slightly underperformed the index due to the impact of acquisition costs. Excluding these costs the like-for-like performance was significantly ahead of the benchmark, outperforming by 3.2%. The geared return was 37.6% as shown below.

Portfolio performance	Geared return (IRR)	Ungeared return (IRR)	Benchmark return (IRR)
FIX UK 2006	37.6%	20.8%*	17.6%

* Excluding acquisitions

The significant portfolio expansion reduced returns by 3.4%. This was primarily due to the timing of the acquisitions and the associated costs of purchase. The performance was driven by three key factors:

- Rental Growth – 4.5% on a like-for-like basis significantly above the benchmark. This was achieved through the settlement of rent reviews (for example Milton Keynes) and new lettings (for example Sheffield).
- Yield movement – similar to other sectors the compression of yields during 2006 added to the capital uplift of the portfolio. The portfolio benefited from a 50 bps yield shift, which is comparable to the standard industrial market.
- Planning – seven planning consents were obtained for the refurbishment and consolidation of the use. This contributed 5% of the capital uplift for the year.

Food Fix

C&R launched its unique new concept Food Fix in January 2007 with its flagship scheme at Milton Keynes. Food Fix will provide a range of hot and cold snacks and refreshments from a branded and welcoming on-site facility.

FIX UK properties

Trade centres	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Valued at less than £4m				
Merchants Trade Centre Bristol	Purpose built trade centre	26 000	Wolseley Centres Speedy Hire Ashted Plant Hire	5
A5 Trade Centre Cannock	Purpose built trade centre	15 000	Multi Tile Bathstore.com Floors 2 Go HSS Hire	4
Broad Oak Trading Estate Canterbury	Well located scheme which will be refurbished and units reconfigured	41 000	Nationwide Auto Centres Plumbase Nationwide Crash repairs	4
Grantham Trade Centre Grantham	Purpose built trade centre	19 000	Floors 2 Go Grahams RAC Auto Windscreens	6
Cappielow Industrial Estate Greenock	Well located on the A8 a number of speculative units were developed prior to ownership Scheme will be refurbished in part	57 000	Jewson Howden Joinery Plumb Centre	13
Loughill Industrial Estate Hartlepool	Well located scheme which will be refurbished and units reconfigured	27 000	Howden Joinery Wolseley Centres	8
Newcastle Trade Centre Newcastle	Purpose built trade centre	21 000	Howden Joinery Kalon RAC Auto Windscreens	4
City Trading Estate Norwich	Well located and offers medium term redevelopment options	39 000	Booker Cash & Carry	1
Pysons Road Ramsgate	Well located and offers medium term redevelopment options	50 000	Booker Cash & Carry	1
Western Approach South Shields	Well located scheme which will be refurbished and units reconfigured	50 000	City Electrical Factors Wolseley Centres Floors 2 Go DJ Tool Hire	9
Valued between £4m and £8m				
Miller Street Aberdeen	Well located scheme which will be refurbished and units reconfigured	68 000	Keyline Builders Merchant Dulux Chubb William Wilson	9
Braintree Trade Centre Braintree	Purpose built trade centre	26 000	Howden Joinery City Plumbing Multi Tile Plumb City	5
Bulwark Business Park Chepstow	Well located scheme which will be refurbished and units reconfigured	59 000	Howden Joinery Wolseley Centres Bulwark Bus and Coach	10
Tufley Industrial Estate Gloucester	Well located scheme which will be refurbished and units reconfigured	57 000	Dulux BSS Group Teledyne	6
The Bridge Centre Huntingdon	Purpose built trade centre	27 000	The Tyre Store Bathstore.com Allied Carpets Carpets 4 Less Multi Tile	8
Riverside Retail Park Ipswich	Currently retail warehouse consent and lends itself for conversion to trade centre	44 000	Orwell Motor Cycles and Vacant	2 11
Orbital Trade Centre Northampton	Purpose built trade centre	28 000	Jewson Mr Clutch Sally Hair and Beauty Plumbase Multi Tile	7
Sheffield Industrial Estate Sheffield	Located on a prime arterial road the scheme requires refurbishment	56 000	Newey & Eyre Al Murad BSS Group Howden Joinery	6
Low Southwick Industrial Estate Sunderland	Well located scheme which will be refurbished and units reconfigured	76 000	Magnet Goodyear Screwfix (to open) BSS Group Hagemeyer Ashted Plant Hire	16
Oak Way Truro	Well located scheme adjacent to the prime retail warehouse scheme in Truro	48 000	Autoglass City Electrical factors Kalon Plumbase Hewden Hire x2 Magnet Jewson	11
Eleanor Trading Estate Waltham Cross	Well located scheme which will be refurbished and units reconfigured	28 000	Multi Tile Wolseley Centres Magnet x2	4
Valued at more than £8m				
Enterprise Trade Centre Bristol	Purpose built trade centre	68 000	Motor World Multi Tile Mays Carpets Tile Giant Derwent Flooring	11
Bletchley Trade Centre Milton Keynes	Purpose built trade centre	48 000	Kalon BSS Group Howden Joinery Multi Tile Floors 2 Go City Electrical Factors HSS Hire	13
Portman Road Reading	New scheme located opposite the proposed Battle Hospital redevelopment site	65 000	Selco and Rodmatic	3

1 Please note the areas have been rounded to the nearest 1 000 sq ft
2 Please note this assumes that multiple units occupied by one tenant can be let individually

C&R continues to invest in properties on its own account and in joint ventures. These ventures are strictly screened to ensure that we have the management capability and also to ensure that they do not fall within the fund investment criteria. Where there is a potential conflict of interest, the properties are offered first to the relevant fund.

Joint venture and other interests	Partners	C&R share
Xscapes		
Milton Keynes	Client of Rockspring	50%
Castleford	Client of Rockspring	66.67%
Braehead	Capital Shopping Centres	50%
Glasgow Fort	British Land	50%
Manchester Arena	GE Real Estate	30%
Capital Retail Park Cardiff	PMG Estates Limited	50%
Gt Northern Warehouse Manchester	-	100%
Leisure World Hemel Hempstead	-	100%
SNO'zone ski slope operator	-	100%

The Xscapes

We now have Xscapes operating in Milton Keynes, Castleford and Braehead. These landmark leisure destinations offer the public real snow skiing, bowling, dining, cinema and a host of other leisure activities. In February 2007 the first two Xscapes at Milton Keynes and Castleford were acquired by the X-Leisure Fund for a combined price of £192 million paid in units, assumption of debt and cash.

The Xscape in Milton Keynes was completed in 2000 at a cost of £60 million. The price paid by the X-Leisure Fund reflected a value of £116 million in February 2007, proving that with the right management the format is highly profitable. The successful settlement of the majority of the rent reviews at rents ahead of rental values adds further evidence to support this.

The Xscape in Castleford was completed in 2003 at a cost of £54 million. It was sold to the X-Leisure Fund for £76 million in February 2007. Xscape Castleford has gained significant publicity and awareness through numerous awards, most notably in 2006 it was joint winner with The London Eye of "Visit Britain's Best Paid for Attraction Award".

The Xscape in Braehead opened in April 2006. It is 90% let and the retail and catering units are trading well despite a delay in opening the cinema.

Glasgow Fort

This highly successful fashion park was developed in partnership with Pillar Property, now part of the British Land Group. It was sold to the Hercules Fund in 2004 but C&R has a financial interest in further phases. In 2006 C&R received £6 million in cash and a further £2.7 million in profit was taken into account.

Manchester Arena

In July 2006 we acquired 30% of the Manchester Arena in a co-venture with GE Real Estate. The property is located on an eight acre site in the heart of Manchester city centre and comprises the 20,000 seat MEN Arena, 120,000 sq ft of offices, a 1,075 space car park and ancillary retail space.

For C&R it is an opportunity to exploit some asset management opportunities and to use its leisure and co-venturing expertise alongside a major investor.

Capital Retail Park, Cardiff

The Capital Retail Park Partnership is a 50/50 joint venture with PMG Estates Ltd, a Welsh developer based in Cardiff.

The project involves the construction of a 283,000 sq ft retail park in Cardiff with a land sale of part of the site to Asda for a 90,000 sq ft foodstore.

Cardiff Council is constructing a new football stadium for Cardiff City Football Club on an adjacent site. Construction is expected to start in June 2007 following acquisition of the site.

Great Northern Warehouse, Manchester

This property is now wholly owned by C&R and has delivered a strong performance in 2006 with a gross asset value increase of £4.25 million which is not reflected in our balance sheet because the property is held as a trading property. The increase in value is mainly attributable to the practical completion and opening of the London Clubs International Casino Manchester 235 in 45,000 sq ft of the vacant warehouse space. The residual space is under offer to Luminar Leisure PLC subject to planning and licensing. Applications for both are now pending.

Leisure World, Hemel Hempstead

This first generation leisure park let to Luminar Leisure PLC was acquired to provide a refurbishment/redevelopment opportunity. The redevelopment of the park for a mixed use scheme continues to be appraised and positive discussions have been held with planners, key city stakeholders and potential occupiers. In 2007 we anticipate finalising a scheme to take forward.

SNO'zone

SNO'zone is the ski operator which rents the real snow slopes in the three Xscapes. It is wholly owned by C&R which built it up out of the bankruptcy of Leisurenet in 2001. It is the largest and most profitable indoor ski operator in the UK but expects more competition from new operators and venues in the future.

2006 was a highly successful year with operating profit (before adjustment for tenant incentives) growing to £2.7 million.

The increase in profit was largely from organic growth at existing locations. Following intensive marketing and business development initiatives, turnover grew by 16% at Milton Keynes and 13% at Castleford.

SNO'zone operating profit

	2006 £m	2005 £m
Income	13.1	9.3
Cost of sales	(9.3)	(7.0)
Management expense	(1.1)	(0.6)
Operating profit	2.7	1.7
Tenant incentives	(0.9)	-
Profit after adjustment	1.8	1.7

Management This business requires highly specialist management focused on increasing spend per head in each of its key market segments. It now has its own independent management team within our leisure division which is achieving organic growth at Milton Keynes and Castleford as well as building up a new business in a very different market in Scotland.

Our team is now well established in an increasingly strong leisure market. It has been asked to look at a number of opportunities to operate leisure attractions which do not compete with the Xscape real snow offer and which could prove interesting for the future.

New marketing initiatives have been plentiful. The management has developed the SNO'academy, Kids Camp and tours conscious of the growth and development of our youth and the athletes of the future. SNO'zone has hosted numerous very successful events throughout the year. Focusing on providing an exciting ever changing environment, it launched its programme of concerts, events on the snow, airbags on the slope, obstacle courses and night training which increases the customer experience and maintains interest for return visits.

The strength of SNO'zone within the market has attracted very professional and successful businesses to align themselves with the Company, through sponsorships and other agreements.

Future strategy The business is clearly prospering under C&R ownership and it makes sense for us to keep the expertise within the Group to help in the development of further Xscape venues.

Joint Ventures and other property interests

Property	Description	C&R share	Size (sq ft)	Principal occupiers	Number of lettable units
Valued at £10 million to £25 million					
Leisure World James Field Hemel Hempstead	First generation leisure park acquired in 2005 for redevelopment or refurbishment	100%	122 056	Luminar Leisure Odeon Cinema	1
Valued at £25 million to £70 million					
Manchester Evening News Arena	Largest indoor arena in the country with additional mixed use and retail space	30%	154 769	SMG (UK) Limited Network Rail JD Williams & Co Limited	5
Valued at £70 million to £100 million					
Great Northern Manchester	Located in Manchester city centre this converted Victorian warehouse includes bars restaurants a health and fitness centre shops and a multiplex cinema	100%	360 130	AMC Cinema Virgin Active London Clubs International	47
Xscape Milton Keynes*	This destination is anchored by the UK's largest indoor real snow slopes	50%	423 698	SNO'zone Cineworld Virgin Active Spirit Group Ellis Bringham	45
Xscape Castleford Leeds*	As well as a real indoor snow slope this destination also features a skate park and indoor air park	67%	370 809	Cineworld SNO'zone Bowplex Ellis Bringham Evans Frankie & Benny's	46
Xscape Braehead Glasgow	This newest Xscape has all the extreme sports of Xscape Leeds and MK but also includes golf and football attractions	50%	374 112	Odeon SNO'zone Bowplex Ellis Bringham	37

* Transferred to the X Leisure Fund on 23 February 2007

Standing from left Philip Newton PY Gerbeau Martin Barber Manjit Wolstenholme Tom Chandos Kenneth Ford
Sitting from left Paul Stobart Hans Mautner William Sunnucks Andrew Lewis Pratt Xavier Pullen, Alan Coppin

Executive Directors

Martin Barber, Chief Executive, 62

Member of Nomination Committee

Martin was a founder director of the Company in 1979 and has been involved in commercial property as a developer and investor for over 30 years. Martin was until March 2006, co-Chairman of CenterPoint Properties Trust, a real estate investment trust listed on the New York Stock Exchange and formerly a subsidiary of Capital & Regional.

William Sunnucks MA ACA, Finance Director, 50

Member of Responsible Business Committee

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

Xavier Pullen, Deputy Chief Executive, 55

Member of Responsible Business Committee

Xavier was a founder director of the Company in 1979 and has been active in the property industry for over 30 years. Xavier focuses primarily on the supervision of the Group's fund management business together with the co-ordination of all property matters and the development of new business initiatives including Germany.

Kenneth Ford BSc FRICS, Managing Director of Shopping Centres, 53

Ken has been a director of Capital & Regional since 1997 and, as Chief Executive of The Mall, is responsible for the fund's shopping centre portfolio. Ken has been involved in commercial property for over 30 years.

Andrew Lewis-Pratt BSc ARICS, Managing Director of Retail Parks and Trade Parks, 49

Member of Responsible Business Committee

Andrew has been a director of Capital & Regional since 1997 and, as Chief Executive of The Junction, is responsible for the fund's retail park portfolio and the newly acquired trade parks portfolio. Andrew has over 20 years' experience within the retail and leisure sector.

PY Gerbeau, Managing Director of Leisure, 41

PY was appointed to the Board in 2003 and as Chief Executive of X-Leisure in 2003. He has over 15 years' experience in the leisure industry. PY's career to date has included Vice President of Park Operations at Disneyland Paris and Chief Executive of the Dome. PY has an MBA from one of France's leading business schools, teaches on the MBA programme at the London Business School and has a Chair of Entrepreneurship at the Imperial College, running a module on the Experienced Economy and Corporate Rescue.

Non-executive Directors

Tom Chandos, Chairman, 54

Chairman of Nomination Committee

Tom is Chairman of Invista European Real Estate Trust and Queen's Walk Investment. He is also on the board of Global Natural Energy plc and a number of private companies. In addition to his board positions, he has worked in investment banking and alternative investment areas such as venture capital and hedge funds. He is a Labour member of the House of Lords. He was appointed as a director of the Company in 1993 and as Chairman in 2000.

Hans Mautner, Non-executive, 69

Member of Nomination Committee

Hans is President of the International Division of Simon Property Group (SPG), the world's largest publicly traded retail real estate company. In addition, Hans is Chairman of Simon Global Limited, SPG's London-based entity. He is also a Director of a number of Dreyfus Corporation managed funds and a member of Lehman Brothers European Real Estate Private Equity Advisory Council. Hans was appointed as a director of the Company in 2003.

Paul Stobart, Non-executive, 49

Chairman of Audit Committee and member of Remuneration and Nomination Committees

After qualifying as a chartered accountant with Price Waterhouse, Paul spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined The Sage Group plc in 1996 as Business Development Director, becoming Chief Executive Officer UK and Ireland in 2003. Paul was appointed as a director of the Company in 2003.

Alan Coppin, Non-executive, 56

Chairman of Responsible Business Committee and Member of Audit Committee

Alan is currently Chairman of Redstone plc, the telecoms and IT solutions provider and a non-executive director of Berkeley Group Holdings plc, the urban regenerator and residential developer. His previous positions have included being Chief Executive of Wembley plc and, in the charity sector, Chairman of The Prince's Foundation for the Built Environment. Alan was appointed a director of the Company in 2004.

Philip Newton, Non-executive, 58

Member of Remuneration Committee

Philip is the former CEO of Merchant Retail Group plc, owners of The Perfume Shop, a 150-store chain that he developed from its beginnings. His early career was in the District Valuer's Office and then the property development industry. Philip was appointed as a director of the Company in 2006.

Manjit Wolstenholme, Non-executive, 42

Chairman of Remuneration Committee and member of Audit Committee

After qualifying as a Chartered Accountant with Coopers & Lybrand (now part of PricewaterhouseCoopers), Manjit spent 13 years at Dresdner Kleinwort Wasserstein, latterly as co-Head of Investment Banking, where she was responsible for managing the division as well as advising clients on a wide range of transactions. She is now a consultant to Gleacher Shacklock, a privately-owned investment banking firm specialising in high level mergers, acquisitions and strategic advice. Manjit was appointed as a director of the Company in 2006.

Introduction

The directors present their report together with the audited financial statements for the year ended 30 December 2006

Results and proposed dividends

The consolidated income statement is set out on page 52 and shows a profit on ordinary activities after taxation of £222.3 million (2005 £202.7 million)

The directors recommend the payment of a final dividend of 17p per ordinary share on 15 June 2007 to members on the register at the close of business on 20 April 2007 which together with an interim dividend of 9p per ordinary share paid in 2006 makes a total dividend of 26p per share for the year

Principal activities, trading review and future developments

The principal activity of the Group is that of a co-investing asset manager

A review of the activities and prospects of the Group is given in the Chairman's statement on page 5 and the Operating and Financial Review on page 6

Business Review

The information that fulfils the requirements of the Business Review including key performance indicators and post Balance sheet events can be found in the Operating and Financial Review on pages 6 to 35 which is incorporated in this report by reference

More detail on the financial risks facing the Company is set out in note 20 on page 75

The purpose of this annual report is to provide information to the members of the Company. The annual report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the Company undertakes no obligation to update them. Nothing in this annual report should be construed as a profit forecast.

Directors

The directors of the Company during the period were: M Barber, T Chandos (retired 5 June 2006), A Coppin, K Ford, PY Gerbeau, A Lewis-Pratt, H Mautner, X Pullen, P Stobart, W Sunnucks, P Newton (appointed 28 July 2006) and M Wolstenholme (appointed 17 August 2006)

In accordance with the Articles of Association, T Chandos, M Barber, M Wolstenholme and P Newton will retire from the Board by rotation and offer themselves for re-election

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

Directors' interests

The directors and where relevant their connected persons (within the meaning of Section 346 of the Companies Act 1985) are interested in 4,281,626 issued shares representing 5.91% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report on page 44

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. No director had a material interest in the share capital of other Group companies during the year.

Share options

Details of outstanding share options granted to the directors under the 1988 and 1998 Share Option Schemes are disclosed in the directors' remuneration report on page 45

Substantial shareholdings

In addition to the interests of the directors, the Company has been notified pursuant to Section DTR5 of the FSA Disclosure & Transparency Rules of the following notifiable interests in its issued share capital as at 10 April 2007 (the latest practicable date prior to the issue of this report)

	Number of shares	%
Fidelity Investments	6,687,518	9.24
Neuberger & Berman	5,488,916	7.58
Morley Fund Management	4,523,226	6.25
ABP Investments	3,789,356	5.23
Morgan Stanley Investment Management	3,386,765	4.68
United Nations Pensions	3,270,000	4.52
Legal & General Investment Management	2,774,859	3.83
ING Investment Management	2,521,800	3.48
F&C Asset Management	2,413,562	3.33
Martin Barber	2,365,897	3.27

Charitable donations

The main thrust of our support to charities is at local level through our fund investments as described on page 50. At Group level we have made small donations during the year totalling £12,500 (2005 £43,970)

Payment of suppliers

The policy of the Company is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed, payment is usually made within one month of the receipt of the goods or service. At the year end, the Company had an average of 28 days (2005 37 days) purchases outstanding.

Compliance with combined code

A statement on corporate governance is set out on pages 46 to 48

Responsible business

The responsible business statement is set on page 49

Employees

The Company is committed to a policy that treats all its employees and job applicants equally. No employee or potential employee receives less favourable treatment or consideration on the grounds of race, colour, religion, nationality, ethnic origin, sex, sexual orientation, marital status or disability. Nor is any employee or potential employee disadvantaged by any conditions of employment or requirements of the Company that cannot be justified as necessary on operational grounds.

During the year, the Company maintained arrangements to provide employees with information on matters of concern to them, to regularly consult employees for views on matters affecting them and to make all employees aware of financial and economic factors affecting the performance of the Company.

Stakeholder pensions

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

Dividend Reinvestment Plan

In 1999, the Company introduced a service whereby shareholders

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

The timetable for the 2006 final dividend is set out on page 96. Details of the terms and conditions of the Dividend Reinvestment Plan can be obtained by contacting the Company Secretary at the registered office.

Registered office

The Company's registered office address is 10 Lower Grosvenor Place London SW1W 0EN.

Auditors' information

Each of the persons who is a director at the date of approval of this annual report confirms that

- So far as the director is aware, there is no relevant audit information of which the company's auditors is unaware and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the AGM.

Special business of the Annual General Meeting

Directors' authority to allot securities

Authority to allot securities, Section 80 of the Companies Act 1985 requires shareholders' authority for the directors to allot new shares or convertible securities other than shares which may be allotted under employee share schemes. Under resolution 9 which is proposed as an ordinary resolution, the directors seek authority to allot shares having a nominal value of £2,412,957 representing one-third of the nominal value of the Company's currently issued share capital. The authority will expire at the conclusion of the Company's AGM in 2008.

Pre-emption rights

Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. Under resolution 10 which is proposed as a special resolution the directors seek to renew their annual authority to allot shares for cash as if the pre-emption rights contained in Section 89(1) of the Companies Act 1985 did not apply up to a maximum of 5% of the Company's issued share capital.

Authority to purchase own shares

At the AGM in 2006 the Company was granted authority to make purchases in the market of its own shares subject to specified limits. This authority which has not as yet been exercised expires at the conclusion of the Company's 2007 AGM. Therefore by resolution 11 it is proposed as a special resolution that this authority in respect of the Company is renewed and also that the Company may cancel any bought in shares immediately or hold them in treasury.

The authority is sought until the conclusion of the 2008 AGM or for 15 months after the date on which the resolution is passed, whichever is the earlier. Details of the current issued share capital

are set out in note 21 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.

The total number of options to subscribe for new ordinary shares in the Company as at 13 April 2007 was 514,970 representing 0.71% of the Company's issued share capital as at 13 April 2007. Such number of options to subscribe for new ordinary shares would represent approximately 14.19% of the reduced issued share capital of the Company assuming full use of the authority to make market purchases sought under resolution 11.

Amendments to the Company's Articles of Association

Resolution 12 to be proposed at the AGM is proposed in order to approve an amendment to the Company's articles of association in relation to the indemnification of directors.

The Companies (Audit, Investigations and Community Enterprise) Act 2004 which came into force on 6 April 2005 made certain changes in relation to the indemnification of directors.

The law now permits companies to grant wider-ranging indemnities so that broadly directors may be indemnified against liability to third parties arising through negligence, default, breach of duty or breach of trust by the directors and a company may purchase and maintain insurance against such liability. However this is subject to certain exceptions which prevent a company from indemnifying a director against liability to the company or any associated company or against the costs of any unsuccessful defence in criminal proceedings or for penalties imposed in criminal proceedings or by any regulatory authority.

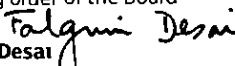
In addition a director could previously only receive reimbursement of his or her defence costs from the company once final judgement in the director's favour had been made. However the law now permits a company to provide funds to directors to cover defence costs as they are incurred (through the granting of a loan) in both civil and criminal cases. If the director is not exonerated the loan must be subsequently repaid (although the costs incurred in civil cases involving third parties could be paid by the company under the indemnity discussed above).

The Board believes that providing appropriate indemnities to directors and agreeing to fund (where permitted) a director's defence costs as they are incurred affords a reasonable level of protection for the directors and is also essential in order to recruit and retain directors.

The Company's current Articles of Association already provide for the directors to benefit from an indemnity and reimbursement for costs in proceedings where judgement is given in favour of the director and the ability to purchase and maintain insurance against director's and officer's liability. However the Board proposes that the Company's Articles of Association be amended to reflect the new statutory provisions.

The proposed resolution is a special resolution to replace articles 186 and 187 by the insertion of new articles 186, 187, 188 and 189 to reflect these new provisions. The directors consider the proposal to amend the articles of association to be considered at the AGM to be in the best interests of the Company and its shareholders as a whole.

By order of the Board


F Desai
Company Secretary
20 April 2007

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee appointed by the Board consisting entirely of non-executive directors. Until 18 September 2006 the members were H Mautner (Chairman), D Cherry (retired 5 June 2006) and P Stobart. Thereafter the members were M Wolstenholme (Chairman), P Newton and P Stobart.

The Committee is responsible for setting the remuneration policy for the executive directors and senior employees. The Committee determines the terms of the service agreements, salaries and discretionary bonus payments, as well as deciding on the awards to be made to all participants in the Long Term Incentive Plan and Capital Appreciation Plan. Advice from independent external advisers is obtained when required but none was considered necessary during 2006.

Remuneration policy

The Company aims to deliver outstanding fund performance, and a high return on equity to its shareholders. Its remuneration schemes are designed to align management interests with these objectives.

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

In order to align the interests of executive directors with the interests of shareholders, a significant proportion of directors' remuneration is performance related through the use of annual bonus and incentive schemes. Performance-related payments are deferred to aid retention but are uncapped in line with practice in the private equity and property fund management industry.

In addition, the Committee aims to achieve an appropriate balance between directors' remuneration packages and those of other key management.

Basic salaries

The Committee's policy is to set the basic salaries of executive directors at levels which reflect their roles, experience and the practices in the employment market.

Annual bonus scheme

The Committee may award cash bonuses to executive directors up to 100% of salary based on the Committee's independent assessment of the Company's success in building its business during the year, and its performance both in absolute terms and relative to other quoted property companies. During 2006, 100% bonuses were awarded to all executive directors.

Incentive schemes

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

- The 1988 Share Option Schemes (the "Closed Schemes")
- The 1998 Share Option Schemes (the "1998 Schemes")
- The Long Term Incentive Plan (the "LTIP")
- The Capital Appreciation Plan (the "CAP")

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

The terms of the LTIP permit the Committee to make conditional awards of shares to participants annually with a market value not exceeding 100% of the participants' basic salary. All the executive directors together with other key executives of the Company are participants in the LTIP. 267,785 shares were conditionally awarded to the participants in 2006.

All LTIP awards are subject to meeting performance conditions in order to incentivise and retain key executives to increase the return on capital by aligning their interests with those of the shareholders of the Company. Details of the awards made in 2006 and a summary of the performance conditions are set out under the heading "Long Term Incentive Plan" below.

All key executives including the executive directors are participants in the CAP. The terms of the CAP permit the Committee to make awards to the participants annually that will entitle them to receive payments in aggregate of up to 30% of the performance fees receivable by the Company from The Mall, Junction and X-Leisure Funds. Awards made under the CAP are also subject to the achievement of performance conditions. In 2006, a total of £15,019,606 has been awarded to the participants, which represents 24.05% of the performance fees earned by the Company during that year. The level of CAP awards determined by the Committee took into account, inter alia, the level of cash bonuses paid to executives for the year. To the extent that the awards ultimately vest, the individual entitlements for 2006 will be reduced by 80% of the value of the shares awarded under the LTIP. Details of the awards made in respect of 2006 and a summary of the performance conditions for payment are set out under the heading "Capital Appreciation Plan" below.

Pension arrangements

The Company makes contributions at proportional rates to basic salary to defined contribution pension schemes of each executive director's choice, except in the cases of M Barber, X Pullen and A Lewis-Pratt where £56,738, £48,404 and £34,906 salary in lieu of pension contributions were paid to them respectively.

Other benefits

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

Service contracts

Each of the present executive directors has a rolling service agreement which can be terminated on one year's notice by either party, except in the case of W Sunnucks who can terminate his service agreement by giving six months' notice. In the event of early termination of an executive director's agreement, the Committee will determine the amount of compensation (if any) to be paid by reference to the circumstances of the case at the time. It is the Committee's policy not to reward poor performance and to take account of the executive director's duty to mitigate loss.

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

M Barber	28 October 1993
X Pullen	28 October 1993
K Ford	17 May 1996
A Lewis-Pratt	20 January 1998
W Sunnucks	15 October 2002
PY Gerbeau	14 April 2003

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

M Barber was co-Chairman of CenterPoint Properties Trust, an American company listed on the New York Stock Exchange until 8 March 2006 and retired thereafter. W Sunnucks is the Chairman of Land Management Limited, a family-run company. X Pullen is a non-executive director for Brandeaux, a privately owned fund management group. The Company does not consider that these appointments involve significant commitment nor that the roles conflict with their duties to the Company. Any earnings received from these appointments are kept by the individuals concerned and have not been disclosed to the Company.

Non-executive directors – remuneration

Each non-executive director currently receives fees of £36 000 per annum.

The Chairman receives additional fees of £89 000 per annum and the Chairman of each of the Audit, Remuneration and Responsible Business Committees receives an additional fee of £6 000 per annum.

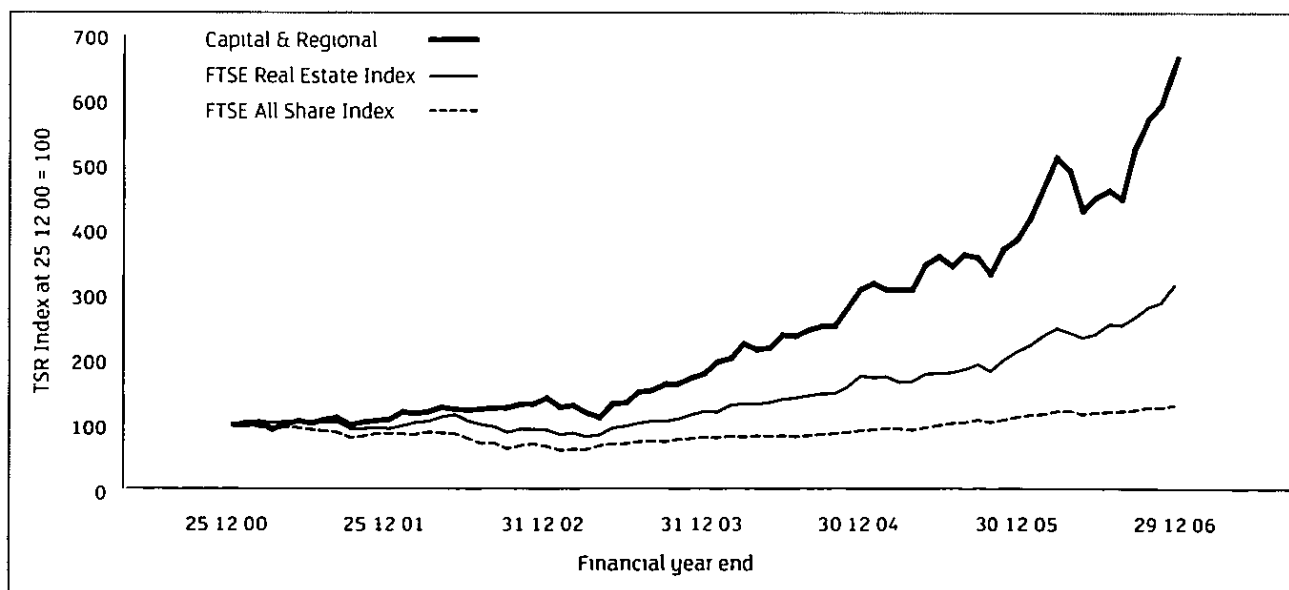
The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes.

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

Performance graph

This graph below is prepared in accordance with the Directors Remuneration Report Regulations 2002 and illustrates the Company's performance compared to a broad equity market index. As the Company is a constituent of the FTSE Real Estate Index, this index is considered by the Board to be the appropriate comparator for this purpose. Performance is measured by total shareholder return (share price growth plus dividends paid).

Total shareholder return (TSR) for the period 30 December 2000 to 30 December 2006



Audited information **Long Term Incentive Plan**

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

	LTIP awards outstanding as at 30 December 2005	Date of award	Market price on date of award (p)	Market price on date of vesting (p)	End of qualifying period	LTIP awards outstanding as at 30 December 2006
M Barber	–	27/12/02	310.5	700.0	31/12/04	–
	68,750 ¹	23/12/03	394.5	1533.0 ⁴	31/12/05	–
	55,000	20/4/04	500.0	1530.0	31/12/06	55,000 ⁵
	39,702	8/7/05	806.0		31/12/07	39,702
		28/4/06	1,115.0		31/12/08	28,700 ¹
X Pullen	79,459 ²	27/12/02	310.5	700.0	31/12/04	–
	65,000 ³	23/12/03	394.5	1533.0 ⁴	31/12/05	–
	52,000	20/4/04	500.0	1530.0	31/12/06	52,000 ⁵
	33,871	8/7/05	806.0		31/12/07	33,871
		28/4/06	1,115.0		31/12/08	24,484 ¹
W Sunnucks	–	27/12/02	310.5	700.0	31/12/04	–
	50,000 ³	23/12/03	394.5	1533.0 ⁴	31/12/05	–
	40,000	20/4/04	500.0	1530.0	31/12/06	40,000 ⁵
	26,055	8/7/05	806.0		31/12/07	26,055
		28/4/06	1,115.0		31/12/08	18,834 ¹
K Ford	–	27/12/02	310.5	700.0	31/12/04	–
	62,500 ³	23/12/03	394.5	1533.0 ⁴	31/12/05	–
	50,000	20/4/04	500.0	1530.0	31/12/06	50,000 ⁵
	32,568	8/7/05	806.0		31/12/07	32,568
		28/4/06	1,115.0		31/12/08	23,542 ¹
A Lewis Pratt	–	27/12/02	310.5	700.0	31/12/04	–
	62,500 ³	23/12/03	394.5	1533.0 ⁴	31/12/05	–
	50,000	20/4/04	500.0	1530.0	31/12/06	50,000 ⁵
	32,568	8/7/05	806.0		31/12/07	32,568
		28/4/06	1,115.0		31/12/08	23,542 ¹
PY Gerbeau	–	27/12/02	310.5	700.0	31/12/04	–
	56,250 ³	23/12/03	394.5	1533.0 ⁴	31/12/05	–
	45,000	20/4/04	500.0	1530.0	31/12/06	45,000 ⁵
	32,568	8/7/05	806.0		31/12/07	32,568
		28/4/06	1,115.0		31/12/08	23,542 ¹

¹ Awards vested and exercised during 2006

² Award exercised during 2006

³ Shares conditionally awarded in 2006

⁴ The shares vested on 23/12/06

⁵ The shares vested on 20/04/07

A total of 462,500 shares awarded in 2003 vested during the year. All directors exercised this award. In addition, during the year 125,141 shares were awarded to key executives at 1115.0p, total conditional awards held by key executives at 30 December 2006 amounted to 435,998 shares. The outstanding LTIP awards are summarised in note 21.

The Company's policy is to make conditional awards to executive directors of shares with market value equivalent to up to 100% of salary at the discretion of the Remuneration Committee. The Remuneration Committee makes the maximum award in the knowledge that none of the shares will vest unless the Company performs strongly.

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

ROE The extent to which 50% of the shares conditionally awarded in 2006 will vest is determined by reference to the level of the Group's average post-tax return on equity (ROE) for the financial years ended 30 December 2006, 2007 and 2008 (performance period). None will vest if the ROE is less than 10%. 20% of the shares will vest if the ROE is 10%. 100% of the shares will vest if the ROE is 18% or above. If the ROE falls between 10% and 18% the percentage of shares will vest at an incremental rate.

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

TSR The other 50% of the shares conditionally awarded in 2006 will vest and will be linked to total shareholder return (TSR) over the three-year performance period relative to the FTSE Real Estate Index whereby:

- If TSR is below the median, no shares in an award will vest.
- If TSR is above the median, 25% of the shares in an award will vest.
- If TSR is in the upper quartile, 100% of the shares in an award will vest.
- If TSR is between median and upper quartile the shares will vest pro rata.

The Remuneration Committee has been independently advised on the above TSR vesting conditions.

Under all circumstances, vesting under the TSR portion of the scheme will be conditional on post-tax return on equity for the Company averaging 5% per annum or higher over the relevant three-year performance period.

Any awards made prior to 2005 will only have to satisfy the ROE performance condition. The Remuneration Committee has elected to adjust the total return calculation to eliminate the effect of the CULS premium write-off because the CULS buybacks enhanced shareholder value.

The potential value of the awards made is the number of shares multiplied by the current share price. The purpose of the scheme is to enable employees to build up long-term shareholdings in the Company.

Capital Appreciation Plan

In accordance with the terms of the plan, the directors have been awarded the following interests in the performance fees receivable by the Group in respect of the financial year 2006.

The interests awarded will only be paid in full if none of the shares conditionally awarded under the LTIP in 2006 vest in 2009. The value of the initial award will be reduced pro rata to the extent that any part of the performance fees received by the Group in respect of 2006 are clawed back as a result of under-performance of the funds in 2007 or 2008. Consequently, no payments will be made in respect of the 2006 awards until 2009, when this clawback right lapses.

	Interest awarded %	Value of initial award* £000	Maximum amount of offset Note 1	Maximum offset carried forward from previous year Note 2
2006				
M Barber	2.79	1,742	256	-
X Pullen	2.79	1,742	218	-
K Ford	2.79	1,742	210	-
A Lewis-Pratt	2.41	1,505	210	-
W Sunnucks	2.26	1,411	168	-
PY Gerbeau	2.34	1,461	210	-
2005				
M Barber	2.94	1,497	256	-
X Pullen	2.76	1,409	218	-
K Ford	3.11	1,585	210	-
A Lewis Pratt	2.76	1,409	210	-
W Sunnucks	2.59	1,321	168	-
PY Gerbeau	2.42	1,232	210	-

Note 1: The amount of the potential offset represents 80% of the LTIP award made in 2006; it will be reduced pro rata to the extent that the shares conditionally awarded under the LTIP do not vest in full.

Note 2: If the finally determined amount of the offset exceeds the value of the CAP award in any one year, the excess will be carried forward to be offset against future awards under the CAP. Where participants have offset carried forward from previous years, this is aggregated with the maximum offset.

* The actual amount paid is subject to performance fee clawback and other minor adjustments.

The Remuneration Committee decides the total amount of the CAP awards based on a proportion of the performance fees earned from the fund management contracts. Under these contracts CRPM is paid a performance fee based on a share of the out performance over and above certain benchmarks as described on page 8.

The allocation of the CAP award between executive directors and other senior management is also decided by the Remuneration Committee based on the contribution of each individual to the total performance of the Group assessed following consultation with the Chairman and Chief Executive.

In addition to the above 49 key executives who were not directors were awarded 8.67% (2005: 7.25%) interests with a value of £5,416,464 (2005: £3,691,138). The key executives who received the interests also received LTIP awards whose maximum gross aggregate offset amounted to £1,116,258 (2005: £753,580).

	Salary and fees £000	Discretionary bonus £000	2006 Pension contributions £000	Other benefits £000 (a)	CAP payment £000 (b,c)	2006 Total £000	2005 Total £000
Executive Directors							
M Barber	320	320	57*	28	376	1,101	724
X Pullen	273	273	48**	22	361	977	615
K Ford	263	263	39	21	590	1,176	605
A Lewis Pratt	263	263	35***	21	297	879	581
W Sunnucks	210	210	30	21	103	574	467
PY Gerbeau	263	263	-	20	41	587	526
Non-Executive Directors							
D Cherry	15	-	-	-	-	15	36
T Chandos	125	-	-	-	-	125	125
P Stobart	42	-	-	-	-	42	42
H Mautner	40	-	-	-	-	40	42
A Coppin	38	-	-	-	-	38	36
P Newton	18	-	-	-	-	18	0
W Wolstenholme	14	-	-	-	-	14	0
Total	1,884	1,592	209	133	1,768	5,586	3,799

a) 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.

b) In respect of 2003 awards.

c) The following amounts will be paid in 2007 in connection with the 2004 CAP award: M Barber £970,000; X Pullen £903,000; K Ford £1,068,000; A Lewis Pratt £990,000; W Sunnucks £700,000 and PY Gerbeau £479,000.

* £56,738 was paid to M Barber as salary in lieu of pension contributions (2005: £56,738).

** £48,404 was paid to X Pullen as salary in lieu of pension contributions (2005: £48,404).

*** £34,906 was paid to A Lewis Pratt as salary in lieu of pension contributions (2005: £32,690). In addition in 2005 £2,500 was paid towards A Lewis Pratt's life assurance policy which was linked to his pension.

Interests in shares

The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) were beneficially interested in the ordinary share capital of the Company at the dates shown in the table below.

Interests in ordinary shares and CULS	Ordinary shares of 10p each 30 December 2006 shares	Ordinary shares of 10p each 30 December 2005 shares	6.75% Convertible unsecured loan stock 30 December 2006 £	6.75% Convertible unsecured loan stock 30 December 2005 £
M Barber	2,365,897	2,348,900	553	34,290
X Pullen	1,101,910	1,089,991	-	23,693
W Sunnucks	56,204	26,954	-	-
K Ford	500,649	426,512	-	-
A Lewis-Pratt	95,138	62,071	-	-
PY Gerbeau	66,667	33,761	-	-
T Chandos	40,071	45,000	-	5,000
D Cherry	5,580	5,580	-	-
P Stobart	-	-	-	-
H Mautner	38,083	38,083	-	-
A Coppin	3,350	3,350	-	-
M Wolstenholme	3,477	-	-	-
P Newton	4,600	-	-	-

There have been no changes to the directors' interests in shares since 30 December 2006 other than the vesting of the 2004 LTIP awards on 20 April 2007 as detailed on page 42 and the exercise and simultaneous sale by Martin Barber of 50 000 share options also on 20 April 2007

Interests in share options	As at 30 December 2005	Exercised	As at 30 December 2006	Exercise price (p)	Earliest exercise date	Latest exercise date	Exercise condition met
M Barber	50 000	–	50 000	211.5	13/09/03	13/09/10	Yes
X Pullen	100 000	–	100,000	279.5	18/05/01	18/05/08	Yes
	50 000	–	50 000	211.5	13/09/03	13/09/10	Yes
	150 000	–	150,000				
K Ford	175 000	–	175,000	279.5	18/05/01	18/05/08	Yes
	75 000	75 000	–	191.5	18/02/02	18/02/07	Yes
	50 000	–	50,000	211.5	13/09/03	18/09/10	Yes
	300 000	75 000	225,000				

During the year K Ford exercised 75 000 share options. The gain on exercise of the options was £748 000.

During the year the share price ranged from a high of 1543p to a low of 850p. The share price as at 30 December 2006 was 1542p.

No share options were granted during 2006 and no further awards will be made under these schemes to participants of the LTIP.

Approval

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

Falguni Desai
F Desai
Company Secretary
20 April 2007

Introduction

The Board of Directors is accountable to the Company's shareholders for the management and control of the Company's activities and is committed to high standards of corporate governance. This report and the directors' remuneration report set out on pages 40 to 45 describe how the Company complies with the provisions of the July 2003 Financial Reporting Council Combined Code on Corporate Governance ("the Combined Code").

Statement of compliance

The Company has complied throughout the year ended 30 December 2006 except where otherwise explained, with the provisions set out in Section 1 of the Combined Code issued by the Financial Reporting Council in July 2003.

Application of the principles

The Board of Directors

Details of the directors are set out on page 37. The Company is controlled through the Board of Directors which comprises the Chairman, six executive and five non-executive directors. The Board recognises that its current balance does not comply with the requirements of the Code in respect of Section A 3.2 which requires at least half the Board, excluding the Chairman, to comprise independent non-executive directors.

The Board and Nomination Committee are satisfied that the current Board composition provides an appropriate balance of power and authority within the Company. The Nomination Committee will however continue to review this position. All the Company's non-executive directors act independently of management and the Board considers that all the non-executive directors are independent. The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office.

P Stobart continued to serve as the Senior Independent Director as required by the Combined Code for the year ended 30 December 2006.

The Company has well established differentiation between the roles of Chairman and Chief Executive. However, it recognises that it is not in compliance with Section A 2.1 of the Code which requires it to have written terms of reference approved by the Board for each role, and the Company is taking steps to put these in place.

In the Company's view, the breadth of experience and knowledge of the Chairman and the non-executive directors' detachment from the day-to-day issues within the Company provide a sufficiently strong and experienced balance with the executive members of the Board. The breadth of experience attributed to the non-executive directors, allied to the management information provided by the Company, enables them to assess and advise the full Board on the major risks faced by the Company. In accordance with the Combined Code the Company considers all its non-executive directors are independent.

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

The responsibilities which the Board has delegated are given to committees that operate within specified terms of reference and authority limits which are reviewed annually or in response to a

change in circumstances. An Executive Directors' Committee comprising the six executives meets on a weekly basis and deals with all major decisions of the Group not requiring full Board approval or authorisation by other Board committees. The Executive Directors' Committee is quorate with four executive directors in attendance. If decisions are not unanimous the matter is referred to the Board for approval. Minutes from the Executive Directors' Committee meetings are circulated to the Board.

The Audit Committee and Remuneration Committee, consist solely of non-executive directors and meet at least twice a year. During June 2006 to September 2006, the Remuneration and Audit Committees comprised only two members following the retirement of David Cherry, and the Company was not compliant with the requirements of Section B 2.1 of the Code during this period. The Company also recognises that the Nomination Committee does not comprise a majority of independent non-executive directors as required by Section A 4.1 of the Code, and the Company is taking steps to appoint another independent non-executive director.

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

All members of the Board are subject to the re-election provisions in the Articles which require them to offer themselves for re-election at least once every three years and at the first AGM after appointment, if appointed after the last AGM. Details of those directors offering themselves for re-appointment are set out in the directors' report on page 38.

A performance evaluation of the Board and the committees is conducted each year with each director giving detailed input. The Chairman meets as necessary, but at least once each year, with the non-executive directors without the executive directors present. The non-executive directors meet annually without the Chairman in order to appraise his performance. This meeting is chaired by the Senior Independent Director. The Chairman evaluates the performance of the remaining directors and the results of the appraisals are analysed and summarised by the Senior Independent Director and discussed with the Chairman. Subsequently, the results are discussed by the Board and relevant consequential changes are made.

Induction training is given to all new directors appointed in the Company and consists of an introduction to the Board, on-site visits to properties managed by the Group, introduction to the divisional teams, an induction pack and access to independent advisers. The ongoing training requirements of the directors are reviewed on a regular basis and undertaken individually, as necessary, although it is recognised that all members of the Board experience continuous professional development from working together. This is achieved by virtue of the dynamic and diverse mix of the Board members, their sharing of knowledge and experiences gained from a range of commercial backgrounds, and the complement of their personal attributes to the Board.

Nomination Committee

The committee comprises T Chandos (Chairman), P Stobart, M Barber and H Mautner.

The Nomination Committee meets as required to select and recommend to the Board suitable candidates for both executive and non executive appointments to the Board. On an annual basis the Nomination Committee also considers succession planning for the Board following the yearly performance evaluation process. The Board is given an opportunity to meet the individual concerned prior to any formal decision. The terms of reference of the Nomination Committee are available for inspection on the Company's website.

During the year with the help of outside consultants the committee recommended two new non-executive directors M Wolstenholme and P Newton. Both individuals met with the Board prior to being appointed.

Board and committee meetings

The number of meetings of the Board and of the Audit, Remuneration and Nomination Committees and individual attendance by directors is set out below.

There were seven full Board meetings during the year of which four were scheduled meetings and three were ad hoc meetings.

Board meetings attendance	Scheduled meetings	Ad hoc meetings	Total attendance
T Chandos	4	3	7
M Barber	4	3	7
D Cherry (Retired 5 June 2006)	1	1	2
X Pullen	4	3	7
W Sunnucks	4	3	7
H Mautner	4	1	5
K Ford	4	3	7
PY Gerbeau	4	3	7
P Stobart	4	3	7
A Lewis Pratt	4	3	7
A Coppin	4	3	7
P Newton (Appointed 28 July 2006)	1	1	2
M Wolstenholme (Appointed 17 August 2006)	2	1	3

There were five Audit Committee meetings during the year.

Audit Committee meetings	Attendance
D Cherry (Retired 5 June 2006)	2
P Stobart	5
A Coppin	5
M Wolstenholme (Appointed 18 September 2006)	2

There were three Remuneration Committee meetings during the year.

Remuneration Committee meetings	Attendance
P Stobart	3
D Cherry (Retired 5 June 2006)	2
H Mautner (Retired 18 September 2006)	2
M Wolstenholme (Appointed 18 September 2006)	1
P Newton (Appointed 18 September 2006)	0

There were three Nomination Committee meetings during the year.

Nomination Committee meetings	Attendance
T Chandos	3
P Stobart	3
M Barber	3
H Mautner (appointed 18 September 2006)	0

There were three Responsible Business Committee meetings during the year.

Responsible Business Committee meetings	Attendance
A Coppin	3
X Pullen	3
W Sunnucks	3
A Lewis Pratt	2

Directors' remuneration

The Remuneration Committee makes recommendations to the Board within existing terms of reference, on remuneration policy and determines on behalf of the Board, specific remuneration packages for each executive director. The terms of reference of the Remuneration Committee are available for inspection on the Company's website.

A proportion of all executive directors' remuneration consists of cash bonuses (linked to corporate and individual performance achievements) the levels of which are determined by the Remuneration Committee. All the executive directors are eligible to participate in the Long Term Incentive Plan ("LTIP") and Capital Appreciation Plan ("CAP") which were both established on 18 December 2002. The LTIP and CAP schemes were renewed in 2005 for a further three years following shareholder consultation and approval. The fees of the non-executive directors are reviewed by the Board at regular intervals. The statement of remuneration policy and details of each director's remuneration are set out in the directors' remuneration report on pages 40 to 45.

Shareholder relations

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

Announcements are made to the London Stock Exchange and the business media concerning business developments to provide wider dissemination of information. In particular monthly announcements of fund unit valuations provide a regular update on the progress of the business. Registered shareholders are sent copies of both the annual report and accounts and the interim report.

Accountability and audit

Financial reporting

The Company's annual report and accounts includes detailed reviews of the activities of each division, together with a detailed review of their financial results and financing position. In this way and as required by the Combined Code the Board seeks to present a balanced and understandable assessment of the Company's position and prospects.

Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and for reviewing its effectiveness. Such a system is designed to manage but not eliminate the risk of failure to achieve business objectives. There are inherent limitations in any control system and accordingly, even the most effective system can provide only reasonable and

not absolute assurance against material misstatement or loss

In accordance with the guidance of the Turnbull Committee on internal control an ongoing process has been established for identifying evaluating and managing risks faced by the Company. This process has been in place from the start of the 2006 financial year to the date of approval of these financial statements. Each year the Board conducts a review of the effectiveness of the current system of internal control. There is an internal control matrix in place for each division which is reviewed and updated following meetings with each divisional management team.

The risks for each of the divisions in the Group are classified into financial, administrative and compliance risks, property risks and operational risks. The key features of the Company's system of internal control are as follows:

- Control documents for each area of risk which identify the key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level.
- Clearly defined organisational responsibilities and authority limits throughout the Group. The day-to-day involvement of the executive directors in the running of the business ensures that these responsibilities and limits are adhered to.
- Financial reporting to the Board including regular reports from the Fund Manager of The Mall, The Junction and X-Leisure Funds and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.

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

Audit Committee

The Audit Committee consists of three non-executive directors: P Stobart (Chairman), A Coppin, M Wolstenholme (Appointed 18 September 2006) and D Cherry (Retired 5 June 2006).

The terms of reference of the Audit Committee are available for inspection on the Company's website. The role of the Audit Committee is to maintain a relationship with the Group's external auditors and to review, in depth, the Company's financial statements, internal financial control and risk management systems and circulars to shareholders in order to monitor financial integrity within the Group.

The Audit Committee is also responsible for reviewing the cost-effectiveness and the volume of non-audit services provided to the Group. The Company does not impose an automatic ban on the Group's external auditors undertaking non-audit work, and details of fees paid to the Group's external auditors are detailed on page 63 in note 5 to the accounts. The Group's aim is always to have any non-audit work involving audit firms carried out in a manner that affords value for money. The Company's policy is that the audit firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group. The Audit Committee reviews and makes recommendations to the Board for the re-appointment of the Group's external auditors. In order to maintain independence the audit partner of the Group's external auditors is subject to rotation at regular intervals. The Audit Committee normally meets five times a year, there is one meeting to approve the audit plan and two for each of the interim and final announcements. The first of the pre-announcement meetings is

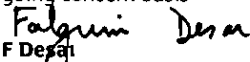
held early enough to allow the Committee members to have real input into the presentation of the accounts. The Chairman of the Audit Committee reports back to the Board on the key conclusions.

The Committee discharged its obligations in respect of the financial year as follows:

- Financial reporting: during the year the Committee reviewed the interim and annual financial statements. The Committee received a report from the external auditors setting out accounting or judgemental issues which required its attention. The auditors' reports were based on a full audit (annual report) and a high level review (interim report) respectively. The Committee also advised the Board on disclosure, in particular the disclosure requirements of IFRS.
- Internal Controls and Risk Management: the Audit Committee meets with the external auditors and deals with any significant internal control matter. In the year under review the Committee met with the external auditors on five occasions. The Audit Committee received a paper prepared by management on the internal controls of the Company.
- Internal Audit: during the year the Group has taken the first steps towards establishing an internal audit function. It has employed IRS, an experienced firm of risk surveyors, to review cash and security controls at selected locations. This falls short of a full internal audit function as the Company believes that a need for such a function does not currently exist. The Audit Committee is reviewing the next step towards establishing a full internal audit function, but recognises that this should be commensurate with the size and complexity of the group.

Going concern

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


F Desai
Company Secretary
20 April 2007

Introduction

Capital & Regional takes its wider responsibilities seriously because it makes business sense. Proper engagement with our occupiers, local authorities, employees, suppliers and local communities is at the foundation of our business. As we continue to grow, we need to formalise our approach and measure what we do.

In last year's annual report we said we had made a start and had developed a framework covering Governance, Marketplace, Environment, Community and Workplace. This year we lay out the strategic goals we have developed for each area (these are highlighted) together with some practical examples of each policy in action.

Governance

We aim to meet stakeholder needs and report on our progress in an open and transparent way. We need to engage properly with all our stakeholders, and have started to apply appropriate governance processes to ensure that we do.

Each of our three operating divisions has developed its own Responsible Business approach, much of which has been driven and developed through the involvement of our staff at all levels. The Junction, for example, devoted its annual conference to formulate its Responsible Business approach. Everyone within The Junction team played their part. We like this decentralised approach which ensures that our common values and beliefs are developed and deeply embedded in our business.

This decentralised approach is supported and encouraged by a committee of the Board. The Responsible Business Committee includes four main Board directors: Alan Coppin (Chairman), Andrew Lewis-Pratt, Xavier Pullen and William Sunnucks. Meetings are also attended by divisional representatives.

The Responsible Business Committee reports at each Board meeting on relevant developments. The induction for new Board directors explains the procedures for identification, assessment and management of risk, including those arising from social, environmental and ethical issues.

It is the role and responsibility of the Board to take into account all aspects of social, environmental and ethical issues. The Board considers that material risks from social, environmental and ethical issues are limited. However, it takes a proactive approach to risk management of these issues.

Many companies place more emphasis on communication than action. We are determined that our approach will be the other way around. We have appointed Bureau Veritas to assess progress, and we have asked them to make enquiries and provide comfort to the Board that we have reported fully and accurately.

Marketplace

Our policy is to treat those who occupy our properties with respect, as our business partners not just payers of rent. We want to work closely with them to improve marketing and safety at our centres and make them attractive to the public.

We aim to build and improve on existing customer relations. We already measure these relationships. The Junction and The Mall commission independent annual tenant satisfaction surveys. The results of these surveys are improving year on year.

Our approach has the endorsement of our retailers. During 2006 the PMA (Property Managers Association) awarded The Mall "Best Service Charge Provider 2006" in recognition of "outstanding

improvements in communication and accounting standards".

Environment

We recognise our responsibilities towards the environment. We aim to do what we can to help reduce waste wherever possible and look after our natural resources, ensuring our investments are developed and operated ethically.

In 2006 our Mall team set up the Enviromall partnership with six environmental specialist organisations including the Carbon Trust and Upstream, a specialist benchmarking firm. Enviromall has been conceived to improve the shopping centre industry's environmental performance through a tailored accreditation scheme.

Upstream has been appointed initially in the Mall and Leisure businesses, our largest consumers of energy, to benchmark our CO₂ emissions, and they are now setting targets for reduction. In 2006 the CO₂ emissions for The Mall was 21,314 tonnes, a reduction of 993 tonnes from the previous year. The CO₂ emissions for X-Leisure was 200,000 tonnes last year.

Our businesses are already implementing significant environmental initiatives. In 2006 The Mall reduced its energy consumption by 4.45%, representing 853 tonnes of CO₂. In 2005 consumption was reduced by 4.2% and between 1999 and 2004 a total reduction of 20.8% has been achieved.

Workplace

Capital & Regional aims to be a good employer and to develop its staff and treat them fairly.

We strive to ensure our people are proud to work for our Group. We encourage and foster a culture of innovation, entrepreneurship and team spirit within a supportive environment. Our businesses now employ 936 people and we continue to recruit and retain the best talent available.

We have an equal opportunities policy that applies across the Group, prohibiting discrimination on grounds of race, gender, religion, sexual orientation or disability. Our policy includes, where practical, the continued employment of those who become disabled during employment. The Group also respects its employees' basic human rights. Our policies ensure that all decisions about the appointment, treatment and promotion of employees are based entirely on merit.

Across the Group as a whole we have enhanced our people policies and activities introducing some of the following initiatives on our "C&R People" intranet:

- Group-wide policy on Training and Development
- Procedures on dealing with Harassment and Bullying
- Disciplinary and Grievance, Flexible Working, Parental Leave and Dependants, Adoption Leave
- Group-wide policy of Share Dealing
- Group-wide policy on IT and Communication

As the business grows we are committing more to strong people management, constantly looking at how we can improve and develop. The Mall team has developed a comprehensive approach to people and resource management resulting in being recognised as an Investor in People since 2002. The Mall was also named 29th place in the Financial Times "Great Place To Work" survey in 2006.

Community

We aim to provide local communities with safe, clean and attractive centres in which to shop and spend leisure time and to recognise that our businesses are integral parts of those communities

We do this through the active management of our shopping and leisure centres, where we aim to support community activities and attract a diverse customer base. We actively help co-ordinate community activities where we can – as for example where we have recently raised a total of £345 000 for good causes under the "Mall Cares" banner. Charitable events held by X-Leisure raised £99 715.

Regeneration is a key principle guiding our developments. Development is not our main business, but we do come across a number of opportunities to improve facilities through new building, and this has normally been on brown field sites – examples at Oldbury, Swansea and Cardiff immediately come to mind.

We recognise that we cannot do these projects successfully on our own. We aim to listen to local communities demonstrating our long term commitment to them, to the quality of our schemes and the integrity of our people.

The regeneration of the old Imperial Tobacco factory in South Bristol demonstrates The Junction's inclusive approach. Regular Community Forum meetings have ensured that both during and after the regeneration process the local community is given a voice.

To really encourage local community involvement in a practical way, X-Leisure stages a number of community based events at its various properties, from large events such as the Beach Party at West India Quay each August and the Pride March at Brighton Marina to much smaller ones such as local carol singing groups at Christmas.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standards require that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, directors are also required to:

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Capital & Regional plc – Group

51

Capital & Regional Annual Report 2006

We have audited the Group financial statements of Capital & Regional plc for the year ended 30 December 2006 which comprise the consolidated income statement the consolidated balance sheet, the consolidated statement of recognised income and expense reconciliation of movement in equity shareholders funds the consolidated cash flow statement, and the related notes 1 to 32. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of Capital & Regional plc for the year ended 30 December 2006.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the operating and financial review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We

consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements and of whether the accounting policies are appropriate to the Group's circumstances 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 Group financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report to be audited.

Opinion

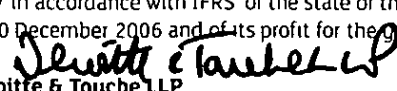
In our opinion:

- the Group financial statements give a true and fair view in accordance with IFRS as adopted by the European Union of the state of the Group's affairs as at 30 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Group financial statements.

Separate opinion in relation to IFRS

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view in accordance with IFRS of the state of the Group's affairs as at 30 December 2006 and of its profit for the year then ended.


Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
20 April 2007

Consolidated income statement

For the year ended 30 December 2006

52

Capital & Regional Annual Report 2006

	Notes	2006 £m	2005 £m
Revenue	2c	132 1	94 2
Cost of sales		(15 5)	(10 7)
Gross profit		116 6	83 5
Administrative costs		(39 0)	(34 5)
Elimination of negative goodwill		–	10 6
Share of profit in joint ventures and associates	15a	164 6	129 3
Gain on revaluation of investment properties	11a	26 0	21 3
Profit on sale of properties and investments		6 3	6 7
Profit on ordinary activities before financing		274 5	216 9
Finance income	3	2 0	0 8
Finance costs	4	(25 6)	(19 0)
Profit before taxation	5	250 9	198 7
Current tax	8	(16 5)	(2 5)
Deferred tax	8	(12 1)	6 5
Tax (charge)/credit		(28 6)	4 0
Profit for the year		222 3	202 7
Basic earnings per share	10	311p	294p
Diluted earnings per share	10	305p	284p

All results derive from continuing activities

Consolidated balance sheet

As at 30 December 2006

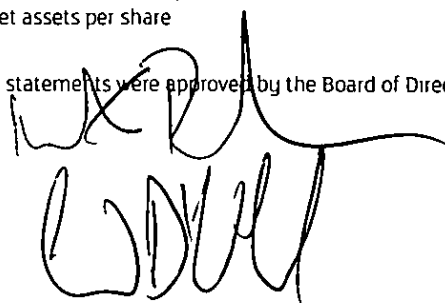
53

Capital & Regional Annual Report 2006

	Notes	2006 £m	2005 £m
Non-current assets			
Investment property	11a	511 4	318 3
Interest in long leasehold property	11a	16 0	13 8
Goodwill	12	12 2	12 2
Plant and equipment	13	1 2	0 7
Receivables	14a	–	3 8
Investment in associates	15b	685 4	583 7
Investment in joint ventures	15d	67 6	49 8
Total non-current assets		1,293 8	982 3
Current assets			
Trading property assets	11a	94 4	93 7
Receivables	14b	89 0	74 5
Cash and cash equivalents	16	35 5	40 1
Total current assets		218 9	208 3
Total assets	2a	1,512 7	1,190 6
Current liabilities			
Trade and other payables	17a	(69 4)	(42 9)
Current tax liabilities		(25 5)	(13 7)
		(94 9)	(56 6)
Non-current liabilities			
Bank loans	18a	(456 8)	(395 7)
Convertible subordinated unsecured loan stock	19	(1 3)	(3 0)
Other payables	17b	(32 8)	(25 9)
Deferred tax liabilities	8c	(13 8)	(1 7)
Total non-current liabilities		(504 7)	(426 3)
Total liabilities	2a	(599 6)	(482 9)
Net assets	2a	913 1	707 7
Equity			
Called-up share capital	21	7 2	7 1
Share premium account	22	219 5	216 9
Revaluation reserve	22	2 7	0 4
Other reserves	22	9 6	11 2
Capital redemption reserve	22	4 3	4 3
Own shares held	22	(6 9)	(1 4)
Retained earnings	22	676 7	469 2
Equity shareholders' funds	2a	913 1	707 7
Triple net, fully diluted net assets per share	24	£12 72	£9 85
EPRA diluted net assets per share	24	£12 75	£10 06

These financial statements were approved by the Board of Directors authorised for issue and signed on their behalf on 20 April 2007 by

M Barber
W Sunnucks



Consolidated statement of recognised income and expense

For the year ended 30 December 2006

54

Capital & Regional Annual Report 2006

	2006 £m	2005 £m
Foreign exchange translation differences	(0 7)	–
Revaluation gains on owner occupied property	2 3	0 4
Net investment hedge	–	–
Profit for the year	222 3	202 7
Total recognised income and expense	223 9	203 1
Attributable to		
Equity shareholders	223 9	203 1

Reconciliation of movement in equity shareholders' funds

For the year ended 30 December 2006

	2006 £m	2005 £m
Opening equity shareholders' funds as restated	707 7	501 2
Issue of shares	2 7	50 1
Acquisition of own shares	(8 3)	–
LTIP credit in respect of LTIP charge	2 1	1 9
Arising on conversion/repurchase of CULS	(0 8)	(47 4)
Reserve arising on acquisition	–	9 5
Other movements	(0 1)	–
	703 3	515 3
Total recognised income and expense	223 9	203 1
	927 2	718 4
Dividends paid	(14 1)	(10 7)
Closing equity shareholders' funds	913 1	707 7

	Notes	2006 £m	2005 £m
Net cash generated from operations	23	89 5	46 7
Distributions received from joint ventures and associates		21 9	17 3
Interest paid	4	(22 1)	(16 6)
Interest received	3	1 9	0 7
Income taxes paid		(3 8)	(0 4)
Cash flows from operating activities		87 4	47 7
Investing activities			
Acquisitions of investment properties		(251 4)	(152 0)
Capital expenditure on investment properties		(2 0)	(0 5)
Proceeds from sale of investment and trading properties*		111 0	58 8
Investment in joint ventures	15d	(8 1)	–
Loans to joint ventures		(0 7)	(0 2)
Disposal of units in associated entity		30 0	–
Acquisitions and disposals		(14 4)	(18 0)
Cash flows from investing activities		(135 6)	(111 9)
Financing activities			
Proceeds from the issue of ordinary share capital		0 4	49 6
Purchase of own shares		(8 3)	–
Repurchase of CULS		–	(62 8)
Bank loans drawn down		639 4	325 6
Bank loans repaid		(575 0)	(201 7)
Dividends paid to minority interests	17b	(0 6)	–
Equity dividends paid		(14 1)	(10 8)
Cash flows from financing activities		41 8	99 9
Net (decrease)/increase in cash and cash equivalents		(6 4)	35 7
Cash and cash equivalents at beginning of year		40 1	4 4
Effect of foreign exchange rate changes		1 8	–
Cash and cash equivalents at end of year		35 5	40 1

* Includes disposals of direct and indirect holdings

1 Significant accounting policies

General information

Capital & Regional plc is a company incorporated in the United Kingdom under the Companies Act 1985. The nature of the Group's operations and its principal activities are set out in note 2 and in the operating and financial review on pages 6 to 35.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the accounting policies set out below.

At the date of authorisation of these financial statements, the following Standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7 Financial Instruments: Disclosures and the related amendment to IFRS1 on capital disclosures

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 8 Scope of IFRS 2

IFRIC 9 Reassessment of embedded derivatives

IFRIC 10 Interim reporting and impairments

IFRIC 11 IFRS 2 Group and Treasury Share Transactions

IFRIC 12 Service concession agreements

The directors anticipate that the adoption of these Standards and interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into force for periods commencing on or after 1 January 2007.

Statement of compliance

The consolidated financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS). The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are explained in note 32. The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS regulations.

Basis of preparation

The financial statements are presented in sterling. They are prepared on the historical cost basis except that investment and development properties, owner-occupied properties and derivative financial instruments are stated at fair value. The accounting policies have been applied consistently to the results, other gains and losses, assets, liabilities, income and expenses.

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Key judgements include the estimation of fair values of investment properties and derivative financial statements, the assessment of estimated useful lives and residual values of property, plant and equipment and estimates of trade receivables impairment provisions. Management believes that the estimates and associated assumptions used in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period. If the revision affects both current and future periods, the charge is recognised over those periods.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), joint ventures and associates made up to 31 December each year.

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity, or business, to benefit from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The reporting period for subsidiaries ends on 31 December and the financial statements of subsidiaries are consolidated from this date.

Joint ventures and associates

In accordance with IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures", associates and joint ventures are accounted for under the equity method, whereby the consolidated balance sheet and income statement incorporate the Group's share of the net assets and profit after tax. The profits include revaluation movements on investment properties. The reporting period for joint ventures and associates ends on 31 December and the financial statements of joint ventures and associates are consolidated from this date.

1 Significant accounting policies continued

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost being the excess of the cost of the acquired entity over the Group's interest in the fair value of the assets, liabilities and contingent liabilities acquired. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Where the fair value of the assets, liabilities and contingent liabilities acquired is greater than the cost, the excess known as negative goodwill, is recognised immediately in the income statement.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at exchange rates approximating to the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date and, unless they relate to the hedging of the net investment in foreign operations, differences arising on translation are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the exchange rates ruling at the balance sheet date. The operating income and expenses of foreign operations are translated into sterling at the average exchange rates for the period. Significant transactions, such as property sales, are translated at the foreign exchange rate ruling at the date of each transaction.

The principal exchange rate used to translate foreign currency denominated amounts in the balance sheet is the rate at the end of the year: £1 = €1.484 (2005: £1 = €1.457). The principal exchange rate used for the income statement is the average rate: £1 = €1.467 (2005: £1 = €1.457).

Plant and equipment

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

Depreciation is provided on all tangible fixed assets, other than investment properties and land, 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

Property portfolio

Investment properties

Investment properties are stated at fair value, being the market value determined by professionally qualified external valuers, with changes in fair value being included in the income statement. In accordance with IAS 40 "Investment Property", no depreciation is provided in respect of properties.

Leasehold properties

Leasehold properties that are leased out to tenants under operating leases are classified as investment properties or development properties, as appropriate, and included in the balance sheet at fair value.

Owner-occupied long-leasehold properties

Owner-occupied long-leasehold properties are included in the financial statements stated at fair value with changes in fair value recognised directly in equity. The cost of owner-occupied property is depreciated through the income statement over the period to the end of the lease on a straight-line basis having due regard to its estimated residual value.

Properties under development

Attributable internal and external costs incurred during the period of development are capitalised. Interest is capitalised gross before deduction of related deferred tax relief. Interest is calculated on the development expenditure by reference to specific borrowings where relevant. A property ceases to be treated as being under development when substantially all activities that are necessary to get the property ready for use are complete.

Refurbishment expenditure

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

Property transactions

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

1 Significant accounting policies continued

Property portfolio continued

Current property assets

Properties held with the intention of disposal are valued at the lower of cost and net realisable value

Head leases

Where an investment property is held under a head lease the head lease is initially recognised as an asset at the sum of the present value of the minimum lease ground rent payable. The corresponding rent liability to the leaseholder is included in the balance sheet as a finance lease obligation.

Tenant leases and incentives

Management has exercised judgement in considering the potential transfer of risks and rewards of ownership in accordance with IAS 17 "Leases" for all properties leased to tenants and concluded that all such leases are operating leases.

Lease incentives and costs associated with entering into tenant leases are amortised over a straight-line basis over the lease term.

Borrowings and derivatives

Borrowings

Borrowings are held at amortised cost. They are recognised initially at fair value, after taking into account of any discount on issue and attributable transaction costs. Subsequently, such discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability.

Convertible unsecured loan stock ("CULS")

CULS are regarded as compound instruments consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the option to convert the liability into equity of the Group, is included in equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying value of the CULS.

Derivative financial instruments and hedge accounting

As defined by IAS 39 derivatives are carried at fair value in the balance sheet. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement in finance cost line as they arise.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Tax

Tax is included in the Group income statement except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised in equity.

Current tax is based on the taxable profit for the year and is calculated using tax rates that have been enacted or substantially enacted. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are never taxable or tax deductible (permanent differences) or will be taxable at a later date (temporary differences). Temporary differences principally arise from using different balance sheet values for assets and liabilities from their respective tax base values.

Deferred tax is provided using the balance sheet liability method on these temporary differences with the exception of goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred

1 Significant accounting policies continued

Tax continued

tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates applicable at the balance sheet date. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Operating leases

Annual rentals under operating leases are charged to profit or loss as incurred.

Employee benefits

Pension costs

Pension liabilities, all of which relate to defined contribution schemes, are charged to the income statement as incurred.

Long-term incentive plan (LTIP)

The Group has applied the arrangements of IFRS 2 "Share-based Payments". Equity settled share-based payments are measured at fair value at the date of grant. The fair value of share-based employee remuneration is calculated using a normal distribution model, which the directors consider not to be materially different from the binominal model. The fair value is dependent on factors including the exercise price, expected volatility, option life and risk free interest rate. The fair value is expensed on a straight-line over the vesting period.

Own shares

Own shares held by the Group are shown as a deduction from shareholders' funds, and included in other reserves. The cost of own shares is transferred from the own shares held reserve to the retained earnings reserve systematically over the LTIP performance period. The shares are held in an Employee Share Ownership Trust.

Trade receivables and payables

Trade receivables and payables are initially measured at fair value and subsequently measured at amortised cost and discounted to reflect the time value of money.

Revenue

Performance and management fees

Performance and management fees are recognised in line with the property management contracts in the period to which they relate. CRPM earns performance fees on the out performance relative to appropriate IPD index, of the associated Mall and Junction Funds and the fixed benchmark for the X-Leisure Fund. Management fees include income in relation to services provided by CRPM to both the joint ventures and the associated funds for asset management, rent reviews, lettings, project co-ordination, procurement, service charges and directly recoverable expenditure.

Net rental income

Net rental income is equal to gross rental income recognised in the period to which it relates, less property expenses directly related to letting and holding the properties.

Interest and dividend income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

2 Segmental analysis

2a Business and geographic segments

Business segments on a see through basis

The Group operates in two main business segments – an assets business and an earnings business. The assets business consists of property investment activities and the earnings business consists of property management activities and the ski slope business of SNO'zone. The businesses are the basis on which the Group reports its primary business segments.

2006	Note	Assets		Earnings		Year to 30 December 2006 Total £m
		Property investment UK £m	Property investment Germany £m	Property management UK £m	SNO'zone £m	
Net rents	2b	65.5	11.5	–	–	77.0
Net interest	2b	(49.6)	(5.7)	–	–	(55.3)
Contribution	2b	15.9	5.8	–	–	21.7
Management fees	2c	–	–	27.4	–	27.4
SNO'zone income	2c	–	–	–	13.1	13.1
SNO'zone expenses		–	–	–	(11.3)	(11.3)
Management expenses		(4.6)	–	(14.0)	–	(18.6)
Recurring pre-tax profit		11.3	5.8	13.4	1.8	32.3
Performance fees	2c 15f	–	–	62.6	–	62.6
Cost of performance fees	15c	(20.1)	(0.3)	–	–	(20.4)
Variable overhead		–	–	(18.3)	–	(18.3)
Gain on investment properties		149.5	17.2	–	–	166.7
Profit on disposals		11.1	–	–	–	11.1
Gain on interest rate swaps		23.5	–	–	–	23.5
Other non-recurring items		(2.0)	(2.5)	(2.1)	–	(6.6)
Profit before tax		173.3	20.2	55.6	1.8	250.9
Tax						(28.6)
Profit after tax						222.3
Statutory basis						
Assets		1 007.3	405.9	95.5	4.0	1,512.7
Liabilities		(232.4)	(302.4)	(60.5)	(4.3)	(599.6)
Net assets/(liabilities) at 30 December 2006		774.9	103.5	35.0	(0.3)	913.1
Capital expenditure (see through basis)		187.1	234.1	0.2	0.6	422.0

2b Contribution and Net Assets on a see through basis

2006	Note	Gross rent £m	Property costs £m	Net rent £m	Net interest £m	Contribution	Net Assets
						Year to 30 December 2006 Total £m	Year to 30 December 2006 Total £m
Mall (C&R share 24.2%) ¹		45.1	(13.0)	32.1	(18.0)	14.1	397.7
Junction (C&R share 27.3%) ²		14.5	(3.5)	11.0	(9.2)	1.8	245.8
X-Leisure (C&R share 10.6%) ³		4.9	(1.0)	3.9	(2.5)	1.4	41.9
Total associates	15c	64.5	(17.5)	47.0	(29.7)	17.3	685.4
Xscape (C&R share)		6.6	(1.6)	5.0	(4.8)	0.2	54.3
Others (C&R share 50%)		0.3	(0.1)	0.2	(0.1)	0.1	13.3
Total joint ventures	15e	6.9	(1.7)	5.2	(4.9)	0.3	67.6
Other UK		4.6	1.3	5.9	(8.2)	(2.3)	3.5
Fix UK		4.7	(1.5)	3.2	(3.0)	0.2	53.3
Great Northern		5.3	(1.1)	4.2	(3.8)	0.4	(0.2)
Germany	2d	14.3	(2.8)	11.5	(5.7)	5.8	103.5
Total wholly owned	2c	28.9	(4.1)	24.8	(20.7)	4.1	160.1
Total on a see through basis		100.3	(23.3)	77.0	(55.3)	21.7	913.1

Associates and Joint Ventures are all held within the United Kingdom

¹ C&R's share at end of year

² C&R's share consists of Xscape Milton Keynes 50% (2005 50%) Xscape Castleford 66.67% (2005 66.67%) and Xscape Braehead 50% (2005 50%)

³ During 2005 Great Northern was a joint venture and became a subsidiary of the Group on 4 October 2005. Since this date Great Northern has been fully consolidated as a 100% subsidiary. The contribution relating to the period to 4 October 2005 is included under other joint ventures. The contribution since that date is included under wholly owned

2 Segmental analysis continued

2a Business and geographic segments continued

Business segments on a see through basis continued

		Assets		Earnings		Year to
		Property investment	Property investment	Property management	SNO!zone	30 December
		UK	Germany	UK	£m	2005
		£m	£m	£m		Total
2005	Note					£m
Net rents	2b	54 0	3 3	—	—	57 3
Net interest	2b	(40 5)	(2 4)	—	—	(42 9)
Contribution	2b	13 5	0 9	—	—	14 4
Management fees	2c	—	—	22 8	—	22 8
SNO!zone income	2c	—	—	—	9 3	9 3
SNO!zone expenses		—	—	—	(7 6)	(7 6)
Management expenses		(3 2)	—	(12 6)	—	(15 8)
Recurring pre-tax profit		10 3	0 9	10 2	1 7	23 1
Performance fees	2c 15f	—	—	50 9	—	50 9
Cost of performance fees	15c	(17 1)	—	—	—	(17 1)
Variable overhead		—	—	(18 6)	—	(18 6)
Gain on investment properties		148 1	5 8	—	—	153 9
Write back of negative goodwill		10 6	—	—	—	10 6
Profit on disposals		9 4	—	—	—	9 4
Loss on interest rate swaps		(11 3)	—	—	—	(11 3)
Other non recurring items		(1 1)	(1 1)	—	—	(2 2)
Profit before tax		148 9	5 6	42 5	1 7	198 7
Tax						4 0
Profit after tax						202 7
Statutory basis						
Assets		967 9	149 4	70 9	2 4	1 190 6
Liabilities		(332 2)	(106 1)	(42 1)	(2 5)	(482 9)
Net assets/(liabilities) at 30 December 2005		635 7	43 3	28 8	(0 1)	707 7
Capital expenditure (see through basis)		302 5	130 1	0 2	0 2	433 0

2b Contribution and Net Assets on a see through basis continued

		Gross rent	Property costs	Net rent	Net interest	Contribution	Net Assets
		£m	£m	£m	£m	Year to	Year to
						30 December	30 December
2005	Note					2005	2005
						Total	Total
						£m	£m
Mall (C&R share 26 1%) ¹		41 4	(12 0)	29 4	(14 5)	14 9	344 6
Junction (C&R share 27 3%) ²		13 0	(2 7)	10 3	(8 0)	2 3	207 7
X-Leisure (C&R share 10 7%) ³		4 7	(0 9)	3 8	(2 5)	1 3	31 4
Total associates	15c	59 1	(15 6)	43 5	(25 0)	18 5	583 7
Xscape (C&R share)		4 5	(0 9)	3 6	(3 6)	—	45 8
Others (C&R share 50%)		2 4	(0 9)	1 5	(1 5)	—	4 0
Total joint ventures	15e	6 9	(1 8)	5 1	(5 1)	—	49 8
Other UK		3 3	0 2	3 5	(9 0)	(5 5)	14 5
Fix UK		0 4	(0 1)	0 3	(0 2)	0 1	18 4
Great Northern		2 0	(0 4)	1 6	(1 2)	0 4	(2 0)
Germany	2d	5 3	(2 0)	3 3	(2 4)	0 9	43 3
Total wholly owned	2c	11 0	(2 3)	8 7	(12 8)	(4 1)	74 2
Total on a see through basis		77 0	(19 7)	57 3	(42 9)	14 4	707 7

Associates and Joint Ventures are all held within the United Kingdom

¹ C&R's share at end of year

² C&R's share consists of Xscape Milton Keynes 50% Xscape Castleford 66 67% and Xscape Braehead 50%

³ During 2005 Great Northern was a joint venture and became a subsidiary of the Group on 4 October 2005. Since this date Great Northern has been fully consolidated as a 100% subsidiary. The contribution relating to the period to 4 October 2005 is included under other joint ventures. The contribution since that date is included under wholly owned

2 Segmental analysis continued

2c Revenue

	Note	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Assets business			
Property investment – wholly owned gross rents	2b	28 9	11 0
Earnings business			
Property management – management fees	2a	27 4	22 8
Property management – performance fees	2a 15f	62 6	50 9
SNO'zone	2a	13 1	9 3
Other revenue		0 1	0 2
Revenue per consolidated income statement		132 1	94 2
Finance income	3	2 0	0 8
Total revenue	2d	134 1	95 0

CRPM earns performance fees on the out-performance of the funds. The performance fees accrued in the period to 30 December 2006 are £62.6 million (30 December 2005: £50.9 million).

2d Geographical segments

	Note	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Revenue by geographical market			
United Kingdom		119 8	89 7
Germany	2b	14 3	5 3
Total revenue	2c	134 1	95 0
Segment net assets			
United Kingdom		809 6	664 4
Germany	2b	103 5	43 3
Total assets	2a 2b	913 1	707 7
Capital expenditure (C&R share)			
United Kingdom		187 9	302 9
Germany	2a	234 1	130 1
Total capital expenditure	2a	422 0	433 0

3 Finance income

	Note	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Interest receivable		1 9	0 7
Other income		0 1	0 1
Total finance income	2c	2 0	0 8

4 Finance costs

	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Interest on bank loans and overdrafts	22.1	11.6
Interest receivable on swaps	(0.6)	(0.4)
Interest on other loans	0.3	1.0
Interest payable	21.8	12.2
Amortisation of loan issue costs	0.9	0.7
Unwinding of discounting of CAP awards	2.2	—
Exceptional charge on buy back of CULS	—	4.2
Share of income attributable to minority interest classified as a liability	2.6	1.3
Other interest payable	1.3	—
(Gain)/loss in fair value of interest rate swaps	(3.1)	0.6
Fair value gains on interest rate swaps transferred from equity	(0.1)	—
Total finance costs	25.6	19.0

5 Profit before taxation

	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
This is arrived at after charging/(crediting)		
Depreciation – owned assets	0.3	0.4
Amortisation of short-leasehold properties	0.1	0.1
Net exchange gains/(losses)	0.2	(0.1)
Increase in fair value of investment property	26.0	21.3
Staff costs (see note 6)	33.5	31.1
Auditors' remuneration (see below)	0.7	0.6
Auditors' remuneration		
Fees payable to the company's auditors for the audit of the company's annual accounts	0.2	0.2
Fees payable to the company's auditors and their associates for other services to the group		
– The audit of the companies' subsidiaries and joint ventures pursuant to legislation	0.3	0.3
– Audit fees for IFRS conversion	0.1	—
Total audit fees	0.6	0.5
Non-audit fees (see below)	0.1	0.1
Total fees paid to auditors	0.7	0.6

Included in non-audit fees are amounts for services supplied pursuant to such legislation £82,000 (2005: £64,000), services relating to tax £10,000 (2005: £10,000) and other services £21,000 (2005: £25,000)

Fees payable to Deloitte and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

6 Staff costs, including directors

All remuneration is paid by Capital & Regional Property Management Ltd (a subsidiary company of Capital & Regional plc) and the SNO'zone companies

	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Salaries	13.7	10.9
Discretionary bonuses	4.9	4.3
Capital appreciation plan	7.9	10.1
Share-based employee remuneration ¹	2.1	2.0
Wages and salaries	28.6	27.3
Social security	4.8	3.7
Other pension costs	0.1	0.1
	33.5	31.1

Key personnel are considered to be the directors as they are the persons having the authority and responsibility for planning, directing and controlling the activities of the Group. Details of their remuneration is disclosed in the Directors' Remuneration Report on pages 40 to 45.

Except for the directors, Capital & Regional plc has no employees. The cost of directors is borne by CRPM and shown in the directors' remuneration report.

¹ Details of fair value assumptions are disclosed in note 21.

Staff numbers

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

	2006 Number	2005 Number
Central management	168	140
SNO'zone	311	217
Total	479	357

This does not include employees in the Mall and X-Leisure employed at fund level.

7 Directors' emoluments

Full details of the directors' emoluments, as required by the Companies Act 1985, are disclosed in the audited sections of the remuneration report on pages 40 to 45.

8 Tax**8a Tax charge/(credit)**

	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Current tax charge		
UK corporation tax	6.6	2.0
Adjustments in respect of prior years	9.7	0.5
Foreign tax	0.2	–
Total current tax charge	16.5	2.5
Deferred tax charge/(credit)		
On net income before revaluations and disposals	9.7	(6.1)
On revaluations and disposals	0.3	(0.4)
Adjustments in respect of prior years	2.1	–
Total deferred tax	12.1	(6.5)
Total taxation charge/(credit)	28.6	(4.0)

8 Tax continued

8b Tax charge reconciliation

	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Profit before tax	250.9	198.7
Profit multiplied by the UK corporation tax rate of 30%	75.3	59.6
Non-allowable expenses and non-taxable items	(6.1)	(17.5)
Utilisation of tax losses	(3.9)	—
Tax on realised gains	(3.5)	0.3
Unrealised gains on investment property not taxable	(45.0)	(46.9)
Prior year adjustments	11.8	0.5
Tax charge/(credit)	28.6	(4.0)

8c Deferred tax movements

	Capital gains net of capital losses £m	Capital allowances £m	Other timing differences £m	Total £m
As at 30 December 2005	3.8	6.8	(8.9)	1.7
Recognised in income	1.9	3.6	6.6	12.1
As at 30 December 2006	5.7	10.4	(2.3)	13.8

At balance sheet date the Group has unused tax losses of £0.7 million (2005: £3.5 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2005: £ nil). The remaining tax losses have not been recognised due to the unpredictability of future profit streams.

The calculation of the Group's tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. In such cases the Group has reserved on the basis that these provisions are required. If all such issues are resolved in the Group's favour, provisions of up to £18.4 million could be released in future periods.

A significant part of the Group's property interests is held offshore. The Group has also undertaken a restructuring of its activities to separate legally its income and earnings businesses in line with its business model. The Group has been advised that no capital gains tax liability arises on these transactions although the relevant computations have yet to be agreed.

9 Dividends

	Note	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Amounts recognised as distributions to equity holders in the year			
Final of 11p per share paid on 16 June 2006 (2005: 9p per share)		7.7	5.9
Interim of 9p per share paid on 13 October 2006 (2005: 7p per share)		6.4	4.9
	22	14.1	10.8
Proposed final of 17p payable on 15 June 2007 (2005: 11p per share)		11.9	7.7

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

10 Earnings per share

The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of certain earnings per share information and these are shown in the following tables

2006	Earnings £m	Weighted average number of shares	Pence per share
Basic	222.3	71.5	311p
Dilutive share options	–	0.5	
Conversion of Convertible Unsecured Loan Stock	0.2	0.9	
Diluted	222.5	72.9	305p
Revaluation movements on investment properties development properties and other investments	(166.7)		(228)p
Profit on disposal of investment properties (net of tax)	(10.8)		(15)p
Movement in fair value of interest rate swaps	(23.5)		(32)p
Deferred tax charge	11.7		16p
EPRA diluted	33.2		46p

2005	Earnings £m	Weighted average number of shares	Pence per share
Basic	202.7	69.0	294p
Dilutive share options	–	0.7	
Conversion of Convertible Unsecured Loan Stock	1.1	2.1	
Diluted	203.8	71.8	284p
Revaluation movements on investment properties development properties and other investments	(155.8)		(217)p
Profit on disposal of investment properties (net of tax)	(6.5)		(9)p
Negative goodwill	(10.6)		(15)p
Movement in fair value of interest rate swaps	7.9		11p
Deferred tax credit	(2.4)		(3)p
EPRA diluted	36.4		51p
Exclude tax effect of CULS buyback	(13.0)		(18)p
Adjusted EPRA diluted	23.4		33p

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

The Convertible Unsecured Loan Stock charge added back to give the diluted earnings figures is net of tax at the effective tax rate for the year

Own shares held are included within the basic number of shares as they are purchased at market value

11 Property assets

11a Wholly-owned property assets

	Freehold investment property assets £m	Leasehold investment property assets £m	Sub total investment property assets £m	Owner occupied building £m	Trading property assets £m	Total property assets £m
Cost or valuation						
As at 31 December 2004	1 2	82 6	83 8	12 0	–	95 8
Exchange adjustments	1 8	–	1 8	–	–	1 8
Acquisitions	197 7	18 1	215 8	–	93 7	309 5
Additions	–	0 5	0 5	–	–	0 5
Depreciation	–	(0 2)	(0 2)	(0 1)	–	(0 3)
Disposals	–	(4 4)	(4 4)	–	–	(4 4)
Head lease treated as a finance lease	–	(0 3)	(0 3)	–	–	(0 3)
Revaluation movement recognised in income	4 2	17 1	21 3	–	–	21 3
Revaluation movement recognised in equity	–	–	–	1 9	–	1 9
As at 31 December 2005	204 9	113 4	318 3	13 8	93 7	425 8
Exchange adjustments	(5 8)	–	(5 8)	–	–	(5 8)
Acquisitions	272 1	–	272 1	–	–	272 1
Additions	2 0	–	2 0	–	0 7	2 7
Depreciation	–	–	–	(0 1)	–	(0 1)
Disposals*	(5 1)	(96 1)	(101 2)	–	–	(101 2)
Revaluation movement recognised in income	25 9	0 1	26 0	–	–	26 0
Revaluation movement recognised in equity	–	–	–	2 3	–	2 3
As at 30 December 2006	494 0	17 4	511 4	16 0	94 4	621 8

* Includes disposals of direct and indirect holdings

The owner occupied building represents the Group's head office which was independently valued at 30 December 2006

The historical cost of the owner-occupied building, which is a long leasehold land and building after depreciation is £13 0 million (2005 £13 1 million). The lease has more than 50 years remaining

The carrying amount of property assets includes £ nil (2005 £2 5 million) in respect of capitalised interest calculated using the Group's average cost of borrowings

The Group has pledged land and buildings having a carrying amount of £527 4 million (2005 £332 1 million) to secure banking facilities granted to the Group

11 Property assets continued

11b Investment property assets

	Valuer	Basis of valuation	Note	2006 valuation £m	2005 valuation £m
Group properties					
	DTZ Debenham Tie Leung	Market value		402 5	135 9
	CB Richard Ellis Limited	Market value		–	68 8
	Directors' valuations	Market value		0 2	0 2
	King Sturge	Market value		109 8	116 3
				512 5	321 2
Plus Head leases treated as finance leases				–	2 1
Less Unamortised tenant incentives				(1 1)	(5 0)
Total investment properties			11a	511 4	318 3
Other fixed assets	DTZ Debenham Tie Leung	Existing use	11a	16 0	13 8
Trading property asset	n/a	Historic cost	11a	94 4	93 7
Total property assets			11a	621 8	425 8
Properties held by joint ventures					
Xscape Milton Keynes Partnership	DTZ Debenham Tie Leung	Market value		109 5	97 6
Xscape Castleford Partnership	DTZ Debenham Tie Leung	Market value		73 8	73 5
Xscape Braehead Partnership	DTZ Debenham Tie Leung	Market value		78 8	53 5
Manchester Evening News Arena	CB Richard Ellis Limited	Market value		66 5	–
				328 6	224 6
Plus Head leases treated as finance leases				3 5	–
Less Unamortised tenant incentives				(11 4)	(9 7)
Total investment properties			15e	320 7	214 9
Properties held by associates					
The Mall Limited Partnership	DTZ Debenham Tie Leung	Market value		3,125 0	2 338 0
The Junction Limited Partnership	King Sturge	Market value		1,590 0	1 459 0
X-Leisure Limited Partnership	Jones Lang LaSalle	Market value		807 0	702 0
				5,522 0	4 499 0
Plus Head leases treated as finance leases				89 0	95 0
Less Unamortised tenant incentives				(43 9)	(33 8)
Total investment properties			15c	5,567 1	4,560 2

The independent property valuations as at 30 December 2006 were performed by qualified professional valuers working for DTZ Debenham Tie Leung Chartered Surveyors CB Richard Ellis Limited Chartered Surveyors Jones Lang LaSalle Chartered Surveyors and King Sturge Chartered Surveyors

The properties were valued on the basis of market value with the exception of 10 Lower Grosvenor Place London SW1, which was appraised on the basis of existing use value All valuations were carried out in accordance with the Royal Institute of Chartered Surveyors Appraisals and Valuation Standards and with IVA 1 of the International Valuation Standards Valuation fees are based on a fixed percentage of the portfolio value

12 Goodwill

	£m
As at 30 December 2005 and 30 December 2006	12 2

The goodwill carried in the Group balance sheet relates to the acquisition of the MWB fund management business by CRPM in 2003, which included MWB's 13.29% interest in Leisure Fund 1, 5.72% interest in Leisure Fund IIa and 7.09% interest in Leisure Fund IIb. This goodwill is tested annually for impairment or more frequently if there are indications that the goodwill might be impaired. Impairment is tested by comparing the carrying amount of CRPM's assets and liabilities with its estimated market value. Estimates of the market value of CRPM are taken from the publicly available research from various City firms who regularly report on Capital & Regional plc. These estimates are calculated by using price earnings ratios and percentage asset under management multiples of the quoted equity fund management sector.

13 Plant and equipment

	Plant and equipment 2006 £m	Plant and equipment 2005 £m
Cost or valuation		
As at 31 December	2 5	2 1
Additions	0 8	0 4
As at 30 December	3 3	2 5
Depreciation		
As at 31 December	1 8	1 6
Provided for the year	0 3	0 2
As at 30 December	2 1	1 8
Carrying amounts		
As at 30 December	1 2	0 7

Included in plant and equipment above are the following investments

£150 000 4.5% Treasury Stock 2007

£50 055 of units in the Paddington Central III Unit Trust, the fair value of which is not materially different from the carrying value

£10,000 representing the fair value of a 49.99% interest in Best Park Investments Limited acquired in the year. The Group treats this as an investment rather than as an associate as it does not exercise any significant influence or control over the entity.

14 Receivables**14a Non-current receivables**

	30 December 2006 Total £m	30 December 2005 Total £m
Prepayments and accrued income	—	3 8

14b Current receivables

	30 December 2006 Total £m	30 December 2005 Total £m
Trade receivables	4 2	2 4
Amounts owed by joint ventures	0 8	0 4
Amounts owed by associates	66 2	54 4
Other receivables	8 4	14 0
Tax recoverable	1 1	0 9
Fair value of interest rate swaps	3 4	0 7
Prepayments and accrued income	4 9	1 7
	89 0	74 5

15 Associates and joint ventures**15a Share of profit**

	Note	Year to 30 December 2006 £m	Year to 30 December 2005 £m
Associates	15c	153 4	116 3
Joint ventures	15e	11 2	13 0
		164 6	129 3

15 Associates and joint ventures continued

15b Investment in associates

	Note	30 December 2006 £m	30 December 2005 £m
At the beginning of the year		583 7	477 1
Subscription for partnership units and advances		—	3 5
Disposal of Mall units		(30 7)	—
Dividends and capital distributions received		(21 0)	(13 2)
Share of results (see below)	15c	153 4	116 3
At end of the year	15c	685 4	583 7

15c Analysis of investment in associates

	Note	The Mall LP £m	The Junction LP £m	X-Leisure* LP £m	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Income statement (100%)						
Revenue		176 3	53 2	46 0	275 5	243 8
Property expenses		(33 9)	(2 6)	(6 0)	(42 5)	(34 1)
Management expenses		(17 0)	(10 4)	(3 5)	(30 9)	(30 1)
Net rents		125 4	40 2	36 5	202 1	179 6
Net interest payable		(70 4)	(33 6)	(23 5)	(127 5)	(108 3)
Contribution		55 0	6 6	13 0	74 6	71 3
Performance fees	15f	(49 2)	(22 2)	(13 0)	(84 4)	(69 6)
Gain on investment properties		325 5	148 7	85 1	559 3	495 6
Profit/(loss) on sale of investment properties		7 4	(0 9)	4 2	10 7	2 3
Fair value of interest rate swaps		52 1	21 0	13 2	86 3	(33 0)
Profit before and after tax (100%)		390 8	153 2	102 5	646 5	466 6
Balance sheet (100%)						
Investment property	11b	3 185 2	1 568 3	813 6	5,567 1	4 560 2
Current assets		158 8	91 1	43 9	293 8	244 4
Current liabilities		(139 4)	(68 2)	(54 4)	(262 0)	(214 6)
Non-current liabilities		(1 562 8)	(694 9)	(407 9)	(2,665 6)	(2 217 8)
Net assets (100%)		1 641 8	896 3	395 2	2,933 3	2 372 2
C&R interest at year end		24 24%	27 32%	10 59%		
C&R interest at start of year		26 12%	27 32%	10 72%		
C&R average interest during the year		25 62%	27 32%	10 62%		

Group share of

Revenue	2b	45 1	14 5	4 9	64 5	59 1
Net rents	2b	32 1	11 0	3 9	47 0	43 5
Net interest payable	2b	(18 0)	(9 2)	(2 5)	(29 7)	(25 0)
Contribution	2b	14 1	1 8	1 4	17 3	18 5
Performance fees	2a	(12 6)	(6 1)	(1 4)	(20 1)	(17 1)
Gain on investment properties		84 1	40 7	9 1	133 9	121 4
Profit/(loss) on sale of investment properties		1 9	(0 2)	0 4	2 1	0 6
Fair value of interest rate swaps		13 1	5 7	1 4	20 2	(7 1)
Profit for the year	15b	100 6	41 9	10 9	153 4	116 3
Investment property		772 1	428 5	86 2	1,286 8	1,099 2
Current assets		38 5	24 9	4 6	68 0	60 1
Current liabilities		(33 8)	(19 2)	(5 8)	(58 8)	(70 8)
Non-current liabilities		(378 8)	(189 3)	(43 1)	(611 2)	(504 5)
Associate net assets		398 0	244 9	41 9	684 8	584 0
Unrealised (loss)/profit on sale of property to associate		(0 3)	0 9	—	0 6	(0 3)
Group share of associate net assets		397 7	245 8	41 9	685 4	583 7

* X Leisure is accounted for as an associate as Capital & Regional has significant influence arising from its membership of the General Partner Board. The X Leisure results have been adjusted to conform to Group accounting policies to remove the sale of Star City which did not complete until after the year end.

15 Associates and joint ventures continued

15d Investment in joint ventures

	Note	30 December 2006 £m	30 December 2005 £m
At the beginning of the year		49 8	46 8
Investment in new joint ventures		8 1	—
Acquisition of Morrison Merlin Limited from a joint venture to a subsidiary entity		—	(6 1)
Dividends and capital distributions receivable		(1 5)	(3 9)
Share of results (see below)	15e	11 2	13 0
At end of the year	15e	67 6	49 8

15e Analysis of investment in joint ventures

	Note	Xscape Milton Keynes Partnership £m	Xscape ¹ Castleford Partnership £m	Xscape Braghead Partnership £m	Others ² £m	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Income statement (100%)							
Revenue		5 6	3 2	3 3	1 1	13 2	12 7
Property expenses		(0 2)	(1 3)	(0 9)	(0 4)	(2 8)	(3 0)
Management expenses		(0 1)	(0 1)	(0 1)	—	(0 3)	(0 3)
Net rents		5 3	1 8	2 3	0 7	10 1	9 4
Net interest payable		(2 8)	(3 1)	(2 5)	(0 4)	(8 8)	(9 2)
Contribution		2 5	(1 3)	(0 2)	0 3	1 3	0 2
Gain on investment properties		11 9	0 9	(0 7)	1 7	13 8	21 0
Profit on sale of investment properties		—	—	—	5 5	5 5	4 2
Fair value of interest rate swaps		0 4	0 5	1 8	0 2	2 9	(0 6)
Profit before and after tax (100%)		14 8	0 1	0 9	7 7	23 5	24 8
Balance sheet (100%)							
Investment property	11b	105 9	71 1	73 6	70 1	320 7	214 9
Current property assets		—	—	—	0 5	0 5	0 5
Current assets		7 0	5 5	8 2	22 2	42 9	32 4
Current liabilities		(3 4)	(8 9)	(10 6)	(6 7)	(29 6)	(23 4)
Non-current liabilities		(46 7)	(45 6)	(54 8)	(50 9)	(198 0)	(132 0)
Net assets (100%)		62 8	22 1	16 4	35 2	136 5	92 4
C&R interest at year end		50 00%	66 67%	50 00%	30-50%		
Group share of							
Revenue	2b	2 8	2 1	1 7	0 3	6 9	6 9
Net rents	2b	2 7	1 2	1 1	0 2	5 2	5 1
Net interest payable	2b	(1 4)	(2 1)	(1 3)	(0 1)	(4 9)	(5 1)
Contribution	2b	1 3	(0 9)	(0 2)	0 1	0 3	—
Gain on investment properties		6 0	0 7	(0 4)	0 5	6 8	11 2
Profit on sale of investment properties		—	—	—	2 7	2 7	2 1
Fair value of interest rate swaps		0 2	0 3	0 9	—	1 4	(0 3)
Profit for the year	15d	7 5	0 1	0 3	3 3	11 2	13 0
Investment property		53 0	47 4	36 8	21 1	158 3	119 1
Current property assets		—	—	—	0 3	0 3	0 3
Current assets		3 5	3 7	4 1	10 2	21 5	17 1
Current liabilities		(1 7)	(6 0)	(5 3)	(3 1)	(16 1)	(13 1)
Non-current liabilities		(23 4)	(30 4)	(27 4)	(15 2)	(96 4)	(73 6)
Group share of joint venture net assets	15d	31 4	14 7	8 2	13 3	67 6	49 8

1 Capital & Regional plc has a 66.67% share in Xscape Castleford Partnership. The investment is accounted for as a joint venture rather than a subsidiary as a result of joint control and deadlock agreements that are in place.

2 Principally the joint ventures are at Glasgow Fort with British Land plc (C&R share 50%) and at the Manchester Evening News Arena Complex with GE Capital (C&R share 30%). The investment at Manchester Evening News Arena is accounted for as a joint venture rather than an associate as a result of joint control agreements that are in place.

15 Associates and joint ventures continued

15f Performance fees

	Note	The Mall* LP £m	The Junction LP £m	The X Leisure LP £m	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Property manager – payable to C&R	2a 2c	35.5	16.7	10.4	62.6	50.9
Property manager – payable by C&R to others*		1.5	–	–	1.5	–
Fund manager – payable to others		12.2	5.5	2.6	20.3	18.7
Total performance fees	15c	49.2	22.2	13.0	84.4	69.6

* C&R's share of the Mall performance fee is reduced by an amount of £1.5 million payable to others

The Group's interests in associates and joint ventures is set out in note 15b and note 15d

16 Cash and cash equivalents

	30 December 2006 £m	30 December 2005 £m
Cash at bank	34.1	38.6
Security deposits held in rent accounts	1.4	1.5
	35.5	40.1

Analysis by currency

	30 December 2006 £m	30 December 2005 £m
Sterling	15.4	27.3
Euro	20.1	12.8
	35.5	40.1

17 Payables

17a Current payables

	30 December 2006 £m	30 December 2005 £m
Bank loans – secured	0.2	0.2
Trade payables	10.2	2.6
Accruals and deferred income	30.0	26.4
Payable to joint ventures and associates	2.3	–
Other payables	12.0	4.9
Other taxation and social security	14.7	8.8
	69.4	42.9

17b Non-current payables

	Note	30 December 2006 £m	30 December 2005 £m
Other payables		0.8	–
Minority interest classified as a liability	17c	9.3	4.1
Accruals and deferred income		22.7	21.8
		32.8	25.9

17 Non-current payables continued**17c Minority interest classified as a liability**

As a result of the Group's change to reporting under IFRS the minority interest, arising from the Group's German operations, has been reclassified as a liability. It had previously been treated as equity. Under the terms of the contract the minority has a put option to sell their share back to the Group at any time after 31 December 2009.

	Note	30 December 2006 Total £m	30 December 2005 Total £m
As at 31 December		4 1	—
Share of income and expense		2 6	1 3
Dividend received		(0 7)	(0 3)
Arising on acquisition	26	3 3	3 1
As at 30 December		9 3	4 1

18 Borrowings**18a Borrowings analysis**

	Note	Bank loans £m	CULS £m	30 December 2006 Total £m	Bank loans £m	CULS £m	30 December 2005 Total £m
Unsecured	19 20	17 0	1 3	18 3	—	3 0	3 0
Secured							
Fixed and swapped bank loans		382 5	—	382 5	219 2	—	219 2
Variable rate bank loans		59 6	—	59 6	177 5	—	177 5
Total borrowing before costs	18b d e	459 1	1 3	460 4	396 7	3 0	399 7
Less unamortised issue costs		(2 1)	—	(2 1)	(0 8)	—	(0 8)
Total borrowings after costs		457 0	1 3	458 3	395 9	3 0	398 9
Analysis of total borrowings after costs							
Current	18b	0 2	—	0 2	0 2	—	0 2
Non-current		456 8	1 3	458 1	395 7	3 0	398 7
Total borrowings after costs		457 0	1 3	458 3	395 9	3 0	398 9

Security for secured borrowings as at 30 December 2006 is provided by charges on property.

18b Maturity

	Note	Bank loans £m	CULS £m	30 December 2006 £m	30 December 2005 £m
After five years	19 20	37 0	1 3	38 3	3 0
From two to five years		270 9	—	270 9	371 0
From one to two years		151 0	—	151 0	25 5
Due after more than one year		458 9	1 3	460 2	399 5
Current	18a	0 2	—	0 2	0 2
	18a d e	459 1	1 3	460 4	399 7

18c Undrawn committed facilities

	30 December 2006 £m	30 December 2005 £m
Expiring within one year	—	—
Expiring between one and two years	2 3	—
Expiring after more than two years	118 5	107 0
	120 8	107 0

18 Borrowings continued

18d Interest rate and currency profile

2006	Note	Fixed rate borrowings %	Years	Fixed rate borrowings £m	Floating rate borrowings £m	30 December 2006 Total £m
Sterling		66	2	118.3	59.6	177.9
Euro		100	5	282.5	–	282.5
	18a b e	90	4	400.8	59.6	460.4

2005	Note	Fixed rate borrowings %	Years	Fixed rate borrowings £m	Floating rate borrowings £m	30 December 2005 Total £m
Sterling		45	2	119.7	144.0	263.7
Euro		73	5	102.4	33.6	136.0
	18a b e	58	3	222.1	177.6	399.7

18e Rates at which interest is charged on borrowings due after one year

	Note	30 December 2006 £m	30 December 2005 £m
Up to 5%		188.0	25.0
5% to 6%		211.5	194.1
Over 6%	19 20	1.3	3.0
		400.8	222.1
Variable rates		59.6	177.6
	18a b d	460.4	399.7

Floating rate borrowings bear interest based on three-month LIBOR

19 Convertible subordinated unsecured loan stock

In 1996 the Company issued £26 million of Convertible Unsecured Loan Stock ("CULS"). Under IFRS these are accounted for as part debt and part equity. Interest is charged on the debt at an effective rate of 11.25% of which 6.75% is paid as a coupon and the balance rolled up in to the value of the debt. The debt element is marked to market on the assumption that the debt remains outstanding until 2016 when it is repayable.

Since 1996 the majority of the CULS have either been converted or bought back in the market by the Group. At 30 December 2006 and at the date of this report CULS with a nominal value of £1.7 million remained.

The balance sheet contains the following balances relating to CULS:

	Note	30 December 2006 £m	30 December 2005 £m
Nominal value of CULS		1.7	4.1
Equity component (net of deferred tax)		(0.5)	(1.0)
Deferred tax liability		(0.1)	(0.4)
		1.1	2.7
Net interest		0.2	0.3
Liability component at balance sheet date	18a b e	1.3	3.0

The CULS may be converted by the holders of the stock into 51.42 (2005: 51.42) ordinary shares per £100 nominal value CULS in any of the years 1997 to 2015 inclusive, representing a conversion price of 194p (2005: 194p) per ordinary share. The Company has the right to redeem at par the CULS in any year from 2006 to 2016. The CULS are unsecured and are subordinated to all other forms of unsecured debt but rank in priority to the holders of the ordinary shares in the Company.

20 Financial instruments and risk management

Exposure to credit, interest rate and currency risks arise in the normal course of the Group's business. Derivative financial instruments are used to manage exposure to fluctuations in foreign currency exchange rates and interest rates but are not employed for speculative purposes.

The Group's risk management policies and practices are as follows:

Debt management

The Group normally raises bank debt on a floating rate basis and fixes a substantial portion of the interest payments by entering into interest rate swaps. Borrowings are arranged to ensure an appropriate maturity profile and to maintain short-term liquidity. Short-term funding is raised principally through syndicated revolving credit facilities from a range of banks and financial institutions. The Group is exposed to fair value risk from its fixed rate debt and interest rate risk from its floating rate debt and cash.

Interest rate management

Interest rate swaps are used to alter the interest rate basis of the Group's debt, allowing changes from fixed to floating rates or vice versa. Clear guidelines exist for the Group's ratio of fixed to floating rate debt and management regularly reviews the interest rate profile against these guidelines.

The Group has interest rate swaps of £281 million maturing within the next five years. Under these swaps the Group pays interest at an average fixed rate of 4.84%. At 30 December 2006, the fair value of these swaps was an asset of £3.4 million (2005: £0.7 million asset).

The Group does not hedge account its interest rate swaps and states them at fair value with changes in fair value included in the income statement.

Cash management

Cash levels are monitored to ensure sufficient resources are available to meet the Group's requirements. Short-term money market deposits are used to manage liquidity whilst maximising the rate of return on cash resources, giving due consideration to risk.

Credit risk

The Group's principal financial assets are bank and cash balances, short-term deposits, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade and other receivables. These amounts are presented net of all allowances for doubtful receivables and allowances for impairment are made where appropriate. The credit risk on short-term deposits and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and tenants.

Foreign exchange risk

The Group uses net investment hedging to hedge its exposure to the euro and its German operations.

Effective interest rates and financial maturity analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and shows a maturity analysis of individual elements.

	Note	Effective interest rate %	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	2006 Total £m
Fixed and swapped bank loans		4.84	–	92.0	270.5	37.0	399.5
Variable rate bank loans		6.16	0.2	59.0	0.4	–	59.6
Interest rate swaps (floating)		–	–	–	–	–	–
CULS	19	11.25	–	–	–	1.3	1.3
	18a b d e		0.2	151.0	270.9	38.3	460.4
Cash		4.15	(35.5)	–	–	–	(35.5)
			(35.3)	151.0	270.9	38.3	424.9
	Note	Effective interest rate %	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	2005 Total £m
Fixed and swapped bank loans		4.61	–	25.0	194.1	–	219.1
Variable rate bank loans		5.13	0.2	0.5	176.9	–	177.6
Interest rate swaps (floating)		–	–	–	–	–	–
CULS	19	11.25	–	–	–	3.0	3.0
	18a b d e		0.2	25.5	371.0	3.0	399.7
Cash		3.78	(40.1)	–	–	–	(40.1)
			(39.9)	25.5	371.0	3.0	359.6

20 Financial instruments and risk management continued

The following table indicates the dates of contractual repricing of the Groups fixed and swapped bank loans

	Total £m	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
Fixed and swapped bank loans					
2006	399.5	–	75.0	270.5	54.0
2005	219.0	–	25.0	194.0	–

The bank loans except for the £17 million working capital facility are secured on specific properties owned by the Group

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest and foreign exchange rates may have an impact on consolidated earnings.

For the year ended 30 December 2006, it is estimated that a general increase of one percentage point in interest rates would have increased the Group's profit before tax by approximately £1.2 million (2005: (£0.8 million)) due to the increase in interest expense which is offset by the effect of interest rate swaps.

It is estimated that a general increase of one percentage point in value of the euro against sterling would have increased the Group's profit before tax by approximately £0.4 million for the year ended 30 December 2006 (2005: £0.2 million).

Fair values of financial instruments

The fair values of borrowings together with their carrying amounts in the balance sheet are as follows:

	Notional principal £m	Book value £m	2006 Fair value £m	Book value £m	2005 Fair value £m
Financial liabilities not at a fair value through profit or loss					
CULS		1.3	1.6	3.0	3.0
On balance sheet Euro denominated fixed rate loans		118.6	115.5	44.6	44.1
Variable loans – on balance sheet		59.6	59.6	127.8	127.8
– Group share of associates		119.0	119.0	28.1	28.1
– Group share of joint ventures		13.6	13.6	28.4	28.4
Swapped loans – on balance sheet		280.9	280.9	219.1	219.1
– Group share of associates		478.8	478.8	478.9	478.9
– Group share of joint ventures		82.1	82.1	45.2	45.2
Total borrowings		1,153.9	1,151.1	975.1	974.6
Financial liabilities at fair value through profit and loss					
Interest rate swaps (our share)	841.8	17.0	17.0	(5.5)	(5.5)
Foreign exchange contract	78.3	–	–	–	–

The fair value of the Group's long-term borrowings have been estimated on the basis of quoted market prices. The fair value of the Group's outstanding interest rate swaps have been estimated by calculating the present value of future cash flows using market discount rates.

Details of the Group's cash and deposits are set out in note 16. Their fair values and those of other financial assets and liabilities equate to their book values.

All other financial assets and liabilities are non interest bearing and their fair value equals their book value.

21 Called up share capital

	Number of shares issued and fully paid		Nominal value of shares issued and fully paid	
	2006 Number	2005 Number	2006 £000	2005 £000
Ordinary shares of 10p each				
At beginning of year	71,000,465	64 039 578	7,100	6 404
New share issues	–	6 560 000	–	656
Issued on exercise of share options	163,151	128 950	16	13
Issued on conversion of CULS	1,225,107	271 937	123	27
At end of year	72,388,723	71 000 465	7,239	7 100

	Authorised	
	2006 Number	2005 Number
Ordinary shares of 10p each	150,000,000	150,000 000

Share options

The options to subscribe for new ordinary shares of 10p each under the share option schemes that were outstanding at 30 December 2006 are as follows

	30 December 2006		30 December 2005	
	Number of shares	Subscription price	Number of shares	Subscription price
Period within which options are exercisable				
18 June 2000 to 18 June 2007	–	226 4p	13 151	226 4p
15 May 2001 to 15 May 2008	289,500	279 5p	339 500	279 5p
22 May 2001 to 22 May 2008	10,470	286 5p	10 470	286 5p
23 February 2002 to 23 February 2009	40,000	191 5p	130 000	191 5p
22 February 2003 to 22 February 2010	–	201 5p	10 000	201 5p
13 September 2003 to 13 September 2010	150,000	211 5p	150 000	211 5p
	489,970		653 121	

Long-Term Incentive Plan

Outstanding LTIP awards	Opening	Number of shares		Lapsed	Closing
		Awarded	Exercised		
2002 awards	79 459	–	(79 459)	–	–
2003 awards	498 750	–	(462 500)	(36 250)	–
2004 awards	466 335	–	–	–	466 335
2005 awards	333 854	–	–	–	333 854
2006 awards	–	267 785	–	–	267 785
	1 378 398	267 785	(541 959)	(36 250)	1 067 974

At 30 December 2006 1 322 240 (2005 1 244 771) shares were held by an Employee Share Ownership Trust ("ESOT"), to enable the Group to meet the above outstanding LTIP shares awarded. The market value of these shares was £20,388 940 (2005 £10 804 612). The rights to receive dividends on these shares has been waived.

21 Called up share capital continued

	Number of shares 2006	Number of shares 2005
ESOT shareholding		
At 31 December	1,244,771	1 688 411
Purchased in year	619,428	—
Exercised/vested in year	(541,959)	(443 640)
At 30 December	1,322,240	1 244 771

In calculating the charge in the Income Statement for the LTIP award the following key assumptions were used

- 1 50% total return which vests in line with historic out performance
 - 2 50% total shareholder return which was derived by using the normal distribution of performance relative to the FTSE real estate index
- Calculation inputs are shown in the following table

	Probability	Vesting %	Value %
1st quartile	15	—	—
2nd quartile	35	—	—
3rd quartile	35	0 – 50	9 0
4th quartile	15	50	7 5
Total			16 5

22 Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Capital redemption reserve £m	Own shares £m	Retained earnings £m	Total £m
As at 31 December 2004	167 3	(1 5)	7 6	4 3	(3 1)	320 2	494 8
Shares issued at premium	49 1	—	—	—	—	—	49 1
Revaluation of owner-occupied property	—	1 9	—	—	—	—	1 9
Arising on acquisition	—	—	9 5	—	—	—	9 5
Arising on CULS conversion/repurchase	0 5	—	(5 9)	—	—	(43 1)	(48 5)
Credit in respect of LTIP charge	—	—	—	—	—	1 9	1 9
Amortisation of cost of own shares	—	—	—	—	1 7	(1 7)	—
Dividends paid	—	—	—	—	—	(10 8)	(10 8)
Profit for the year	—	—	—	—	—	202 7	202 7
As at 31 December 2005	216 9	0 4	11 2	4 3	(1 4)	469 2	700 6
Exchange differences	—	—	(0 7)	—	—	—	(0 7)
Shares issued at premium	0 3	—	—	—	—	—	0 3
Revaluation of owner-occupied property	—	2 3	—	—	—	—	2 3
Purchase of own shares	—	—	—	—	(8 3)	—	(8 3)
Arising on CULS conversion	2 3	—	(0 8)	—	—	—	1 5
Amortisation and other movement	—	—	(0 1)	—	—	—	(0 1)
Credit in respect of LTIP charge	—	—	—	—	—	2 1	2 1
Amortisation of cost of own shares	—	—	—	—	2 8	(2 8)	—
Dividends paid	—	—	—	—	—	(14 1)	(14 1)
Profit for the year	—	—	—	—	—	222 3	222 3
As at 30 December 2006	219 5	2 7	9 6	4 3	(6 9)	676 7	905 9

22a Other reserves

	CULS equity reserve £m	Acquisition reserve £m	IFRS reserve £m	Foreign currency reserve £m	Net investment hedging reserve £m	Total £m
As at 31 December 2004	7.3	—	0.3	—	—	7.6
Arising on CULS conversion	(5.9)	—	—	—	—	(5.9)
Arising on acquisition	—	9.5	—	—	—	9.5
As at 31 December 2005	1.4	9.5	0.3	—	—	11.2
Amortisation	—	—	(0.1)	—	—	(0.1)
Arising on CULS conversion	(0.8)	—	—	—	—	(0.8)
Exchange differences	—	—	—	(0.7)	—	(0.7)
As at 30 December 2006	0.6	9.5	0.2	(0.7)	—	9.6

23 Reconciliation of net cash generated from operations

	Year to 30 December 2006 Total £m	Year to 30 December 2005 Total £m
Profit on ordinary activities before financing	274.5	216.9
Adjusted for		
Share of profit in joint ventures and associates	(164.6)	(129.3)
Gain on revaluation of investment properties	(26.0)	(21.3)
Negative goodwill released to income	—	(10.6)
Loss on sale of trading and development properties	1.5	(2.4)
Depreciation of other fixed assets	0.3	0.3
Amortisation of short leasehold properties	0.1	0.1
Amortisation of tenant incentives	(0.9)	—
Profit on sale of investment properties	(6.0)	(4.3)
Profit on disposal of fixed assets	—	1.2
Increase in receivables	(3.3)	(23.8)
Increase in payables	6.9	17.7
Unrealised loss on exchange	4.9	—
Non-cash movement relating to the LTIP	2.1	2.2
Net cash generated from operations	89.5	46.7

24 Net assets per share

The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of certain net asset per share information and this is shown in the following notes

		30 December 2006		30 December 2005	
	Note	Net assets £m	Number of shares m	Net assets per share £	Net assets per share £
Basic	2a 2b	913 1	72 4	12 61	9 97
Own shares held		–	(1 3)		
Fair value of fixed rate loans (net of tax)		2 2	–		
Fair value of trading properties		3 7	–		
Conversion of CULS		1 2	0 8		
Dilutive share options		1 2	0 5		
Triple net diluted net assets per share		921 4	72 4	12 72	9 85
Exclude fair value of borrowings (net of tax)		(11 9)			
Exclude fair value of fixed rate loans (net of tax)		(2 2)			
Exclude deferred tax on unrealised gains and capital allowances		16 1			
EPRA diluted net assets per share		923 4	72 4	12 75	10 06

25 Return on equity

	30 December 2006 Total £m	30 December 2005 Total £m
Total recognised income and expense attributable to equity shareholders	223.9	203.1
Opening equity shareholders' funds	707.7	501.2
Return on equity	31.6%	40.5%

26 Acquisitions

During the year the Group acquired at different dates the issued share capital of three German KGs for a combined cash consideration of £13.5 million

Entity name	Date of acquisition	% of share capital acquired
Sobernheim KG	1 July 2006	83.61%
Bochum KG	1 November 2006	76.05%
Oschersleben KG	1 November 2006	80.82%

	Note	Aggregate book values at acquisition £m	Fair value adjustments £m	Fair value acquired £m
Fair value of assets acquired				
Investment properties		6.7	16.5	23.2
Debtors		0.3	—	0.3
Cash and cash equivalents		1.5	—	1.5
Current liabilities		(0.7)	—	(0.7)
Non-current liabilities		(7.5)	—	(7.5)
Net assets acquired		0.3	16.5	16.8
Fair value of consideration				
Cash				13.5
Minority interest	17b			3.3
				16.8

Set out below are the aggregated results of Sobernheim KG, Bochum KG and Oschersleben KG from the dates of acquisition to 30 December 2006

	Note	Aggregate results from date of acquisition to 30 December 2006 £m	Other Group results for the year ended 30 December 2006 £m	Total results for the Group for the year ended 30 December 2006 £m
Revenue per consolidated income statement		0.5	131.6	132.1
Profit before tax		0.1	250.8	250.9
Taxation expense	8a	—	(28.6)	(28.6)
Profit after tax		0.1	222.2	222.3

If the acquisition of the three KGs above had been completed on the first day of the financial year, Group revenues for the year would have been £133.9 million and Group profit attributable to equity holders of the parent company would have been £222.1 million

27 Operating lease arrangements

The Group as lessee

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	Land and buildings		Other operating leases	
	2006 £m	2005 £m	2006 £m	2005 £m
Within one year	—	0.1	0.4	0.4
In the second to fifth years inclusive	0.2	0.2	0.9	0.5
After five years	6.1	4.6	—	—
	6.3	4.9	1.3	0.9

Operating lease payments represent rentals payable by the Group for certain of its office properties and equipment. Leases are negotiated for an average of 122 years and rentals are fixed for an average of 4 years.

The Group as lessor

The Group leases out all of its investment properties under operating lease for average lease terms of 13 years to expiry. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows

	Unexpired average lease term Years	Less than one year £m	Between two to five years £m	Between six to ten years £m	Between 11 to 15 years £m	Between 16 to 20 years £m	After 20 years £m	30 December 2006 Total £m	30 December 2005 Total £m
100% figures									
Mall	10.2	165.1	557.7	459.3	155.5	84.1	460.2	1,881.9	1,583.1
Junction	14.4	57.0	225.3	248.6	192.4	89.1	23.3	835.7	842.0
X-Leisure	18.8	37.4	146.7	176.2	169.0	97.2	49.5	676.0	777.9
Xscapes	18.2	12.2	47.6	55.2	50.1	40.1	13.7	218.9	156.5
Germany	9.7	25.7	94.1	77.7	36.5	14.3	0.1	248.4	119.7
Fix UK	8.2	5.2	16.0	10.9	2.2	0.6	0.2	35.1	3.9
Other	14.7	7.1	27.0	32.1	26.8	6.7	2.4	102.1	91.0
Total	91.5	309.7	1,114.4	1,060.0	632.5	332.1	549.4	3,998.1	3,574.1

28 Capital commitments

As at 30 December 2006 the Group had capital commitments of £13.6 million (2005: £nil) relating to the acquisition of three trade parks by Fix UK which completed in early 2007.

As at 30 December 2006 the Group's share of capital commitments of joint ventures and associates was £24.2 million (2005: £151.6 million). This comprised £20.4 million related to the X-Leisure Fund's commitment to acquire Xscape Milton Keynes and Xscape Castleford as disclosed in note 32 and £3.8 million related to land purchased by the Mall which completed in early 2007.

29 Contingent liabilities

The Group had no contingent liabilities at 30 December 2006 (2005: £nil).

30 Events after balance date

On 15 January 2007 the X-Leisure Fund sold its property at Star City Birmingham for £85.5 million

On 23 February 2007 the Group sold its 50% interest in Xscape Milton Keynes and its 66.67% interest in Xscape Castleford to the X-Leisure Fund. At the date of sale the gross value of the two properties was £192 million, substantially in excess of the 30 December 2006 value of £183.3 million (see note 11b). The Group exchanged its interests in the two properties for a further 29.1 million units in the X-Leisure Fund, increasing the Group's share of the X-Leisure Fund from 10.6% to 20%.

On 15 March 2007 the Group completed a £19.3 million purchase of a property in Germany.

On 11 April 2007 The Junction Thurrock LP completed on a land purchase, the Group's share of which is £8 million.

Since the year end Fix UK has completed a £35 million purchase of a further nine properties and extended its banking facilities from £70 million to £140 million on the same terms.

31 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

During the year Group companies entered into the following transactions with related parties who are not members of the Group:

	Management and performance fees receivable from related parties		Amounts owed by related parties	
	2006 £m	2005 £m	2006 £m	2005 £m
Associates				
The Mall Limited Partnership	50.8	40.8	37.9	29.7
The Junction Limited Partnership	23.1	22.7	16.1	17.7
X-Leisure Limited	17.1	8.8	10.4	4.3
Joint ventures				
Xscape Milton Keynes Partnership	0.1	0.2	—	—
Xscape Castleford Partnership	0.1	0.2	—	—
Xscape Braehead Partnership	0.2	0.4	—	—
Morrison Merlin	—	0.3	—	—

SNO'zone Limited and SNO'zone (Braehead) Limited

	Rents payable to related parties		Amounts owed to related parties	
	2006 £m	2005 £m	2006 £m	2005 £m
Joint ventures				
Xscape Milton Keynes Partnership	0.7	0.6	—	0.2
Xscape Castleford Partnership	0.6	0.6	—	—
Xscape Braehead Partnership	0.5	—	—	—

SNO'zone Limited includes both ski slopes at Milton Keynes and Castleford. All rents payable by SNO'zone are payable to the relevant Xscape Partnership.

On 6 October the Group sold its 100% ownership of Morfa Retail Park to the Junction Fund for £105.7 million. At the date of sale and 30 December 2006 the Group retained a 27.32% interest in the Junction Fund.

Under current Accounting Standards the sale of Morfa Retail Park to the Junction Fund is required to be disclosed as a related party transaction. However, the Group wishes to confirm that all of its associates (including the Junction Fund) and joint ventures are not related parties as defined by the United Kingdom Listing Authority Rules.

During 2006 the Group purchased IT and communication equipment from Redstone plc on normal commercial terms. Alan Coppin was appointed as a director of Redstone plc in June 2006.

During the year X Pullen sold 144,459 shares to the ESOT at market value of £2,214,566. At the year end the Company owed X Pullen £1,289,045 in respect of these shares. This was paid to X Pullen by the Company on 11 January 2007.

All the above transactions occurred at normal commercial rates and terms.

32 Transition to International Financial Reporting Standards ("IFRS")

2006 is the first year that the Group will present its financial statements under IFRS. The last financial statements presented under UK GAAP were for the year ended 30 December 2005. As IFRS comparatives must be presented for the year ended 30 December 2005, the date of transition was 31 December 2004. Reconciliations are presented on the following pages to enable comparison of the 2006 figures with those published in the corresponding period in the previous financial year and those published for the year ended 30 December 2005.

When preparing the Group's IFRS balance sheet at 31 December 2004, the following material optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

Business combinations – the provision of IFRS 3 "Business Combinations" have been applied from 30 December 2004. The Group has chosen not to restate business combinations that fall before the date of transition.

Financial instruments – the Group has applied IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" for all periods presented and has therefore not taken advantage of the option that would enable the Group to only apply the standards from 30 December 2005.

Reconciliation of equity under UK GAAP to equity under IFRS

	Note	30 December 2005 £m	30 December 2004 £m
Equity shareholders' funds under UK GAAP		694.5	494.5
IFRS adjustments			
Goodwill amortisation	a	1.2	–
Exclusion of negative goodwill	b	10.6	–
Exclusion of dividend	c	7.7	5.9
Deferred tax	d	(3.5)	(6.4)
Convertible unsecured loan stock ("CULS")	e	1.1	5.9
Fair value of interest rate swaps	f	(5.1)	0.3
Amortisation of lease incentives and letting costs	g	1.2	1.0
Finance lease asset	h	2.1	2.4
Finance lease liability	i	(2.1)	(2.4)
Net IFRS adjustments		13.2	6.7
Equity shareholders' funds under IFRS		707.7	501.2

Reconciliation of loss reported under UK GAAP to profits under IFRS

	Note	30 December 2005 £m
Loss for the year under UK GAAP		(3.0)
IFRS adjustments		
Goodwill amortisation	a	1.2
Exclusion of negative goodwill	b	10.6
Deferred tax	d	2.9
Convertible unsecured loan stock ("CULS")	e	(4.2)
Premium on repurchase of CULS	e	46.9
Fair value of interest rate swaps	f	(5.4)
Amortisation of rent free periods, lease incentives and letting costs	gh i	0.2
Revaluation gains on investment properties	j	155.5
Share-based payment	k	0.2
Unwinding of finance lease	l	0.2
Reclassification of minority interest as a liability	m	(1.3)
Current tax previously charged through the statement of recognised gains and losses under UK GAAP	n	(1.1)
Net IFRS adjustments		205.7
Profit for the year under IFRS		202.7

32 Transition to International Financial Reporting Standards ("IFRS") continued

IFRS 1 "First-time Adoption of International Financial Reporting Standards" requires an explanation of major adjustments to cash flows under IFRS. Whilst the format of the cash flow statement is different under UK GAAP, there are no material changes to cash flows from operations, investment or financing.

Notes

UK GAAP referred to in the table in note 33 is that existing at 30 December 2005.

The principal reasons for the adjustments shown in the reconciliation between UK GAAP and IFRS are set out below:

- a) Under UK GAAP goodwill is amortised over its expected useful economic life. Under IFRS goodwill is carried at cost and an annual impairment review undertaken.
- b) Under UK GAAP negative goodwill is carried in the balance sheet. Under IFRS negative goodwill should be credited to the income statement.
- c) Under UK GAAP proposed dividends are included in the profit and loss account and as a liability in the balance sheet. Under IFRS unapproved and unpaid dividends are not provided for.
- d) Under IFRS deferred tax provisions are made for the tax that would potentially be payable on the sale of investment or development properties and other assets, whereas UK GAAP requires that this potential liability is disclosed as contingent tax but not provided for in the balance sheet. Deferred tax arising on valuation changes and other items are included in the income statement under IFRS.
- e) Under IFRS the debt and equity components of convertible instruments are separate, whereas under UK GAAP the nominal value of the CULS are held as a liability on the balance sheet net of issue costs.
- f) The fair value of interest rate swaps is included in the balance sheet with effect from 31 December 2004.
- g) Under UK GAAP rent free periods are allocated over the period of the first rent review. Under IFRS rent free periods are allocated over the period to the first break option or if the probability that the break option will not be exercised is considered low over the full lease term.
- h) Under UK GAAP lease incentive such as cash inducements and contributions to tenant fit out are either written off, capitalised or capitalised and amortised, depending upon their nature. Under IFRS all such costs are capitalised and amortised over the period to the first break option or if the probability that the break option will be exercised is considered low over the full lease term.
- i) Under UK GAAP letting costs are either capitalised on the first letting of a unit or on subsequent lettings written off in the year they are incurred. Under IFRS all such costs are capitalised and amortised over the period to the first break, or if the probability that the break option will not be exercised is considered low over the full lease term.
- j) IFRS requires that valuation changes on investment properties are included in the income statement.
- k) In 2005 the vesting conditions for 50% of the LTIP were changed and linked to the FTSE Real Estate Index. Under IFRS this constitutes a market condition and the fair value is assessed on the expected shares that will vest based on Capital & Regional's relative position compared to the index. The fair value of the shares at the date of the award is charged over the vesting period.
- l) IFRS requires that where a lease is treated as a finance lease the net present value of all payments under the lease are capitalised into the value of the investment property and an associated liability included in the balance sheet.
- m) Under IFRS the minority interest has been reclassified as a non-current payable and the minorities' share of the income statement has been treated as a financing charge.
- n) As the items that this tax relates to are charged to the income statement under IFRS the related tax is also shown in the income statement.

We have audited the parent company financial statements of Capital & Regional plc for the year ended 30 December 2006 which comprise the balance sheet and the related notes A to J. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Capital & Regional plc for the year ended 30 December 2006 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

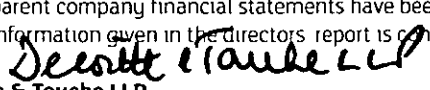
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements and of whether the accounting policies are appropriate to the company's circumstances, 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 parent company 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 adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the Company's affairs as at 30 December 2006
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the directors' report is consistent with the parent company financial statements


Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

20 April 2007

Company balance sheet

Prepared in accordance with UK GAAP
As at 30 December 2006

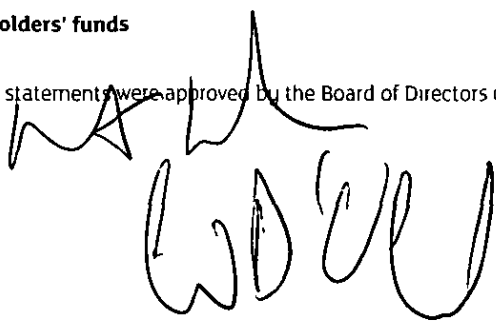
86

Capital & Regional Annual Report 2006

	Notes	2006 £m	As restated (see notes A and G) 2005 £m
Fixed assets			
Other investments	C	787 0	127 4
Current assets			
Debtors	D	275 0	329 8
Cash and deposits		0 4	1 0
		275 4	330 8
Creditors – amounts falling due within one year			
Trade and other creditors	E	(285 2)	(154 5)
Short-term bank loans and overdrafts		(8 9)	(0 1)
		(294 1)	(154 6)
Net current (liabilities)/assets		(18 7)	176 2
Creditors – amounts falling due in more than one year			
Bank loans	F	(8 4)	(8 6)
CULS	F	(1 3)	(3 0)
		(9 7)	(11 6)
Net assets		758 6	292 0
Capital and reserves			
Called-up share capital	21	7 2	7 1
Share premium account	G	219 5	216 9
CULS equity reserve		0 6	1 4
Capital redemption reserve	G	4 3	4 3
Retained earnings	G	527 0	62 3
Equity shareholders' funds		758 6	292 0

These financial statements were approved by the Board of Directors on 20 April 2007

M Barber
W Sunnucks



A Accounting policies

Although the Group consolidated accounts are prepared under IFRS the Capital & Regional plc Company accounts presented in this section are prepared under UK GAAP. Following the issue of several UK accounting standards intended to converge certain aspects of UK GAAP with IFRS, the accounting policies relevant to the Company are included within those set out in the Group accounting policies note 1 except for investment in subsidiaries as described in note C below.

The new UK accounting standards are

- FRS 20 Share based payments
- FRS 21 Events after the balance sheet date
- FRS 23 The effects of changes in foreign exchange rates
- FRS 25 Financial instruments disclosure and presentation
- FRS 26 Financial instruments measurement

The effect of FRS 21 on the comparative figures is to exclude the 2005 proposed final dividend from the balance sheet and income statement. Consequently in respect of the year ended 30 December 2005 retained earnings and equity shareholders' funds are increased by £7.7 million.

Under FRS25 the debt and equity components of convertible instruments are separate. Previously the nominal value of the CULS was held as a liability in the balance sheet. At 30 December 2005 the effect on retained earnings was a reduction of £0.3 million and an increase in equity shareholders' funds of £1.1 million.

The restatement effect is shown in note G below.

B Profit for the year

As permitted by section 230 of the Companies Act 1985 the profit and loss account of the Company is not presented as part of these financial statements. The profit for the year attributable to equity shareholders dealt with in the financial statements of the Company was £464.7 million (2005 as restated loss £9.2 million).

The Company had no direct employees during the year (2005 nil).

C Other investments

	2006 £m
As at 31 December 2005	127.4
Additions	928.4
Disposals	(268.6)
Write down in value of investments	(0.2)
As at 30 December 2006	787.0

Investments are stated at cost less provision for impairment. A list of principal subsidiaries and joint venture undertakings is given in note I.

D Debtors

	2006 £m	2005 £m
Amounts owed by subsidiary entities	273.4	327.7
Amounts owed by associates and joint ventures	0.7	0.1
Prepayments and accrued income	0.9	2.0
	275.0	329.8

E Creditors – amounts falling due within one year

	2006 £m	2005 £m
Amounts owed to subsidiaries	283.6	153.5
Taxation	0.1	0.4
Other payables	1.1	0.5
Accruals and deferred income	0.4	0.1
	285.2	154.5

F Creditors

	Bank loans £m	CULS £m	2006 Total £m	2005 £m
After five years	–	1.3	1.3	3.0
From two to five years	8.4	–	8.4	8.6
Due after more than one year	8.4	1.3	9.7	11.6
Due within one year	0.2	–	0.2	0.1
	8.6	1.3	9.9	11.7

Details of the Group's borrowings are given in note 18. The Company's borrowings are all secured and comprise sterling denominated bank loans and CULS.

G Reserves

	Share premium account £m	CULS reserve £m	Capital redemption reserve £m	Retained earnings £m	Total £m
As at 31 December 2005	216.9	–	4.3	54.6	275.8
Change in accounting policies (see note A)	–	1.4	–	7.7	9.1
Balance at 31 December 2005 restated	216.9	1.4	4.3	62.3	284.9
Premium on issue of shares	2.6	–	–	–	2.6
Arising on conversion of CULS	–	(0.8)	–	–	(0.8)
Retained profit for the year	–	–	–	464.7	464.7
As at 30 December 2006	219.5	0.6	4.3	527.0	751.4

H Fair value of financial liabilities

	2006 Book value £m	2006 Fair value £m	2005 Book value £m	2005 Fair value £m
Non-current borrowings	9.7	10.0	11.6	11.6
Current borrowings	9.1	9.1	0.1	0.1
Total borrowings	18.8	19.1	11.7	11.7

I Principal subsidiary, joint venture and associated companies

	Nature of property business	Group effective share of business	*Share of voting rights
Capital & Regional Property Management Limited ³	Management	100%	100%
The Mall Jersey Property Unit Trust ⁴	Investment	24.24%	24.24% ¹
The Junction Jersey Property Unit Trust ⁴	Investment	27.32%	27.32% ¹
X-Leisure Jersey Property Unit Trust	Investment	10.59%	10.59% ¹
The Auchinlea Partnership	Investment	50%	50%
Capital & Regional Abertawe Limited ³	Investment and management	100%	100%
Trade Park Unit Trust ⁴	Investment and management	100%	100%
Capital & Regional Hemel Hempstead Limited ⁴	Investment and management	100%	100%
Capital & Regional (Europe LP) Limited ⁴	Investment and management	100%	100%
Capital & Regional (Europe LP 2) Limited ⁴	Investment and management	100%	100%
Capital & Regional (Europe LP 3) Limited ⁴	Investment and management	100%	100%
Capital & Regional (Europe LP 4) Limited ⁴	Investment and management	100%	100%
Capital & Regional (Europe LP 5) Limited ⁴	Investment and management	100%	100%
Capital & Regional Earnings Ltd ³	Investment and management	100%	100%
Capital & Regional Income Ltd ³	Investment and management	100%	100%
Capital & Regional Holdings Ltd ⁴	Investment and management	100%	100%
Capital & Regional Capital Partner Ltd ⁴	Investment and management	100%	100%
Capital & Regional Overseas Holdings Ltd ⁴	Investment and management	100%	100%
Capital & Regional Units LLP ⁴	Investment and management	100%	100%
Xscape Milton Keynes Jersey Property Unit Trust ⁴	Investment and management	50%	50%
Xscape Castleford Jersey Property Unit Trust ⁴	Investment and management	66.67%	50% ²
Xscape Braehead Partnership ³	Investment and management	50%	50%
Manchester Evening News Arena Complex Limited	Investment and management	30%	50% ⁵
SNO!zone Limited ³	Trading	100%	100%
SNO!zone (Braehead) Ltd ³	Trading	100%	100%
Morrison Merlin Limited ³	Trading	100%	100%

1 Capital & Regional is regarded as having significant influence through its membership of and role on the General Partner Board

2 Capital & Regional treats this entity as a joint venture rather than a subsidiary entity despite owning 66.67%. This is as a result of joint control and deadlock agreements that are in place

3 Incorporated and operates in Great Britain

4 Incorporated and operates in Jersey

5 Capital & Regional treats this entity as a joint venture rather than as an associate despite owning 30%. This is as a result of joint control by means of equal membership of the management committee which is the main decision making body

* This percentage is equivalent to the number of ordinary shares or units held by the Group

Investments in associates and joint ventures are set out in note 15c and note 15e

The Company has taken advantage of S231 (5) and (6) Companies Act 1985 in not listing all of its subsidiary and joint venture undertakings. All of the above principal subsidiaries and joint ventures have been consolidated in the Group financial statements

J Contingent liabilities

The Company had no contingent liabilities as at 30 December 2006

Portfolio under management **

	30 December 2006 £m	30 December 2005 £m	30 December 2004 £m
Investment properties	512	320	83
Trading property	94	94	8
The Mall Fund	3,125	2,338	2,099
The Junction Fund	1,590	1,459	1,010
X-Leisure Fund	807	702	597
Other joint ventures	329	226	226
Total	6,457	5,139	4,023

Properties under management above are shown at valuation except for trading property which is held at cost and do not include the adjustments in respect of

* Accounting for head leases that are deemed to be finance leases

The treatment required by IFRS of rent free periods capital contributions and leasing costs

Fund portfolio information (100% figures)

As at December 2006

91

Capital & Regional Annual Report 2006

	The Mall	The Junction	X Leisure	German Portfolio	FIX UK
Physical data					
Number of core properties	23	16	17	44	24
Number of lettable units	2 404	233	285	143	166
Lettable space (sq ft- 000s)	8 299	3 575	3 092	4 398	1 041
Valuation data					
Properties at market value (£m)	£3 125m	£1,590m	£807m	£382m	£110m
Revaluation in the year (£m)	£325 5m	£148 7m	£85 1m	£17 2m	£9 6m
Initial yield (%)	4 56%	3 29%	4 99%	6 01%	4 51%
Equivalent yield (%)	5 21%	4 45%	5 94%	n/a	5 72%
Gearing returns (%)	26 30%	18 33%	30 40%	34 20%	37 59%
Property level return (%)	17 60%	14 99%	19 70%	15 20%	17 41%
Reversionary %	12 97%	17 40%	5 84%	n/a	13 69%
Loan to value ratio (%)	47 79%	43 79%	49 90%	74 00%	63 78%
Lease data					
	Years	Years	Years	Years	Years
Average lease length to break	10 33	14 02	17 80	9 70	6 74
Average lease length to expiry	10 92	14 36	18 80	9 70	8 23
Passing rent of leases expiring in					
	£m	£m	£m	£m	£m
2007	13 73	0 46	1 79	0 20	0 04
2008	9 78	0 28	0 13	1 40	0 57
2009-2011	25 27	0 99	0 98	1 90	0 75
ERV of leases expiring in					
2007	16 03	0 55	1 84	n/a	0 04
2008	10 64	0 30	0 20	n/a	0 61
2009-2011	25 94	1 39	1 07	n/a	0 79
Passing rent subject to review in					
2007	27 30	6 21	13 01	n/a	0 53
2008	19 27	13 95	6 77	n/a	0 63
2009-2011	39 81	35 58	13 02	n/a	2 38
ERV of passing rent subject to review in					
2007	29 17	8 56	14 47	n/a	0 66
2008	21 49	15 90	7 51	n/a	0 70
2009-2011	44 73	40 97	13 93	n/a	2 57
Rental data					
Passing rent (£m)	£165 9m	£57 5m	£44 4m	£25 7m	£5 2m
Estimated rental value (£m per annum)	£187 5m	£73 0m	£49 4m	n/a	£6 8m
Rental increase (ERV) %	5 26%	3 59%	3 46%	n/a	4 52%
Vacancy rate (%)	4 21%	6 00%	3 20%	0 62%	7 62%
Like-for-like net rental income (100%)					
Current year net rental income					
	£m	£m	£m	£m	£m
Properties owned throughout 2005/2006	101 4	31 2	33 2	9 8	2 6
Acquisitions	23 1	8 0	3 0	1 7	0 5
Disposals	0 9	1 0	0 3	—	0 1
Total net rental income – 2006	125 4	40 2	36 5	11 5	3 2
Prior year net rental income					
Properties owned throughout 2005/2006	97 7	25 2	32 6	—	—
Acquisitions	6 2	5 1	2 1	3 3	0 3
Disposals	5 0	5 7	—	—	—
Total net rental income – 2005	108 9	36 0	34 7	3 3	0 3
Other data					
Unit price (£1 00 at inception)	£2 4883	£2 8481	£1 7586	n/a	n/a
C & R Share	24 24%	27 32%	10 59%	92 16%	100 00%

Five-year review

for the periods 31 December 2002 to 30 December 2006

92

Capital & Regional Annual Report 2006

	UK GAAP 31 December 2002 £m	UK GAAP 31 December 2003 £m	UK GAAP 30 December 2004 £m	IFRS 30 December 2005 £m	IFRS 30 December 2006 £m
Balance sheet					
Property assets	55.5	51.5	83.0	425.8	621.8
Other fixed assets	13.0	12.3	12.5	0.7	1.2
Intangible assets	—	14.5	12.2	12.2	12.2
Investment in joint ventures	24.7	56.5	46.7	49.8	67.6
Investment in associates	286.4	372.7	477.1	583.7	685.4
Other current assets/(liabilities)	9.2	(4.8)	8.2	21.7	(5.9)
Cash at bank	4.2	4.5	4.4	40.1	35.5
Bank loans greater than one year	(95.1)	(110.1)	(117.8)	(395.7)	(456.8)
Convertible unsecured loan stock	(24.4)	(24.5)	(20.4)	(3.0)	(1.3)
Other long-term liabilities	(3.5)	(5.5)	(11.4)	(27.6)	(46.6)
Net assets	270.0	367.1	494.5	707.7	913.1
Financed by					
Called up share capital	6.2	6.3	6.4	7.1	7.2
Share premium account	162.7	165.6	167.4	216.9	219.5
Revaluation reserve	74.0	145.2	247.2	0.4	2.7
Other reserves	4.3	2.5	1.1	14.1	7.0
Retained earnings	22.8	47.5	72.4	469.2	676.7
Capital employed	270.0	367.1	494.5	707.7	913.1
Return on equity (%)					
Return on equity	14.6%	37.6%	37.0%	40.5%	31.6%
Return on equity before exceptional items	18.2%	37.6%	39.0%	40.5%	31.6%
Increase in NAV per share + dividend	16.7%	32.8%	36.6%	40.8%	30.8%
Share price increase + dividend	30.8%	26.0%	72.1%	25.0%	81.0%
Total return					
Total return	35.2	101.6	136.0	203.1	223.9
Total return before exceptional items	43.9	101.6	143.2	203.1	223.9
Net assets per share (pence)					
Basic	438p	591p	793p	997p	1261p
Triple net diluted	392p	521p	710p	985p	1272p
EPRA diluted	—	—	—	1006p	1275p
Triple net diluted net assets per share growth (%)	15.5%	32.9%	36.3%	38.7%	29.1%
Gearing (%)	30.9%	27.0%	22.0%	50.2%	50.0%
Gearing (%) on a see through basis	122.0%	129.0%	126.0%	126.0%	125.0%
Income statement					
Group turnover	26.2	39.5	62.4	94.2	132.1
Gross profit	20.5	33.0	55.4	83.5	116.6
Profit on ordinary activities before financing	34.3	55.9	68.8	216.9	274.5
Net interest payable	(25.0)	(29.6)	(34.5)	(18.2)	(23.6)
Exceptional items	(7.2)	—	(8.2)	—	—
Profit on ordinary activities before taxation	2.1	26.3	26.1	198.7	250.9
Taxation	(1.3)	(6.9)	(5.9)	4.0	(28.6)
Profit after tax	0.8	19.4	20.2	202.7	222.3
Recurring pre-tax profit	—	—	16.6	23.1	32.3
Fully taxed recurring dividend cover (x)	—	—	—	1.25	1.19
Interest cover (x)	1.30	1.63	1.63	1.86	2.14
Earnings per share (pence)					
Basic	1.3p	31.4p	32.2p	294p	311p
Diluted	1.2p	27.3p	28.4p	284p	305p
EPRA diluted	—	—	—	33p	46p
Dividends per share	7p	9p	14p	18p	26p
Dividend cover (x)	(0.2)	3.5	2.2	4.8	1.8

Capital allowances deferred tax provision In accordance with IAS 12 full provision has been made for the deferred tax arising on the benefit of capital allowances claimed to date. However in the Group's experience the liabilities in respect of capital allowances provided are unlikely to crystallise in practice and are therefore excluded when arriving at EPRA NAV

CRPM Capital & Regional Property Management Limited is a subsidiary of Capital & Regional plc and earns the management and performance fees arising from Capital & Regional's interests in the associated funds and joint ventures

Contribution comprises Capital & Regional's share of the net rents less net interest arising from Capital & Regional's interests in its joint ventures, associates and wholly owned entities

CULS is the Convertible Subordinated Unsecured Loan Stock

EPRA adjusted fully diluted NAV per share includes the effect of those shares potentially issuable under the CULS or employee share options and excluding own shares held. The unrealised gains and capital allowances deferred tax provision, the fair value of borrowings net of tax and the fair value of trading properties are added back

EPRA earnings per share (EPS) is the profit after taxation excluding gains on asset disposals and revaluations and their related taxation, movements in the fair value of financial instruments, intangible asset movements and the capital allowance effects of IAS 12 where applicable, less taxation arising on these items, divided by the weighted average number of shares in issue during the year excluding own shares held

EPRA triple net, fully diluted NAV per share includes the effect of those shares potentially issuable under the CULS or employee share options and excluding own shares held. NAV is adjusted for the fair value of debt and the fair value of trading properties

Estimated rental value (ERV) is the Group's external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property

Equivalent yield is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the Group's external valuers) assume rent received annually in arrears and on gross values including prospective purchasers' cost

ERV growth is the total growth in ERV on properties owned throughout the year including growth due to development

Gearing is the Group's net debt as a percentage of net assets. Seeing through gearing includes our share of non-recourse net debt in the associates and joint ventures

Initial yield is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation, excluding development properties

IPD is Independent Property Databank Ltd, a company that produces an independent benchmark of property returns

Loan to value (LTV) is the ratio of net debt excluding fair value adjustments for debt and derivatives to the aggregate value of properties (including the surplus of the open market value over the book value of trading properties), investments in joint ventures and funds and other investments

Market value is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers). In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agent and legal fees

Net assets per share (NAV) are shareholders' funds divided by the number of shares held by shareholders at the period end, excluding own shares held

Net rent is Capital & Regional's share, on a see through basis, of the rental income less property and management costs excluding performance fees of the Group, its associates and joint ventures

Net interest is Capital & Regional's share, on a see through basis, of the interest payable less interest receivable of the Group, its associates and joint ventures

Passing rent is the gross rent less any ground rent payable under head leases

Return on equity is the total return, including revaluation gains and losses, divided by opening equity plus time weighted additions to share capital, excluding share options exercised, less reductions in share capital

Recurring pre-tax profit is the sum of contribution plus management fees, SNO'zone income less SNO'zone expenses, less fixed management expenses

Reversion is the estimated increase in rent at review where the gross rent is below the estimated rental value

Reversionary percentage is the percentage by which the ERV exceeds the passing rent

Reversionary yield is the anticipated yield which the initial yield will rise to once the rent reaches the estimated rental value

See through balance sheet is the pro forma proportionately consolidated balance sheet of the Group, its associates and joint ventures

See through income statement is the pro forma proportionately consolidated income statement of the Group, its associates and joint ventures

Total return is the Group's total recognised income for the year as set out in the Consolidated Statement of Recognised Income and Expense ("SORIE") expressed as a percentage of opening equity shareholders' funds, excluding CULS reserve

Total shareholder return is the growth in price per share plus dividends per share

Triple net, fully diluted NAV per share includes the effect of those shares potentially issuable under the CULS or employee share options

SIC 15 "Operating lease – incentives" debtors under accounting rules the balance sheet value of lease incentives given to tenants is deducted from property valuation and shown as a debtor. The incentive is amortised through the income statement

Vacancy rate is the estimated rental value of vacant properties expressed as a percentage of the total estimated rental value of the portfolio, excluding development properties

Variable overhead includes discretionary bonuses and the cost of awards to employees made under the LTIP and CAP and is spread over the performance period

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2007 financial calendar

Annual General Meeting	11 June 2007
Final dividend payment	15 June 2007
Interim results	September 2007
Interim dividend	October/November 2007
2007 preliminary results announcement	March 2008

Final dividend 2006 timetable

Record date	20 April 2007
Last day to receive DRIP mandates	1 June 2007
Dividend warrants posted	14 June 2007
Payment date/shares purchased	15 June 2007
Certificates/purchase statements dispatched	28 June 2007
CREST accounts credited	29 June 2007

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