

Capital & Regional

Interim Report 2009

Contents

Section 1

The story

- 01 Highlights
- 02 Chief Executive's statement
- 08 Principal risks and uncertainties
- 10 Going concern and responsibility statement

Section 2

Accounts

- 11 Condensed consolidated income statement
- 12 Condensed consolidated balance sheet
- 13 Condensed consolidated statement of recognised income and expense and reconciliation of movements in equity shareholders' funds
- 14 Condensed consolidated cash flow statement
- 15 Notes to the condensed financial statements
- 35 Independent review report to Capital & Regional plc

Section 3

Other information

- 36 Portfolio information
- 37 Fund portfolio information
- 38 Glossary of terms
- 40 Shareholder information

Capital & Regional... what we do

- C&R is a co-investing property asset manager. This means that we manage property assets for funds and joint ventures in which we hold a significant stake
- We aim to build best-of-class specialist management teams for the retail and leisure sectors in which we operate

...business model

- We operate asset businesses and earnings businesses
- Asset businesses comprise our investments in property funds and joint ventures, and our wholly-owned properties
- Earnings businesses comprise our property management teams, which manage the funds and German joint venture, and SNO!zone

“The actions taken since the beginning of the year, including the refinancing of The Junction and X-Leisure Funds and culminating in the Capital Raising and related renegotiation of credit facilities, significantly strengthen the financial position of the Group.

The Group should, as a result, be in a position to exploit its established community retail and leisure asset management skills to enhance the value of existing funds and to take advantage of investing opportunities once the turn in the market occurs.”

Tom Chandos, Chairman

Highlights

- Announcement of £69.2 million (gross) Capital Raising subject to shareholder approval*
- £23.5 million firm placing to new cornerstone investor Parkdev, the South African property and asset manager, and underwritten firm placing and placing with open offer of £45.7 million to ordinary shareholders*
- Renegotiation of terms of Group revolving credit facility and facilities backing the Great Northern and 10 Lower Grosvenor Place properties (subject to completion of the Capital Raising), and refinancing of Hemel Hempstead loan*
- Net assets of £50.8 million (30 December 2008: £186.1 million) after loss for the period of £134.7 million (2008: £201.4 million)
- Triple Net Diluted Net Asset Value of £0.71 per share (30 December 2008: £2.67)
- Recurring pre-tax profit for the first six months of £10.3 million (2008: £16.4 million)
- Resilient operating performance in property management business
- Completion of a £63.6 million equity raise by The Junction Fund alongside a refinancing package and new governance structure
- Completion of a £50.0 million equity raise by The X-Leisure Fund alongside a refinancing package and new governance structure*
- Completion of the sale of the Group’s share in its Cardiff joint venture to its joint venture partner for £1.2 million

* Including events between 30 June 2009 and the current date.

Financial highlights

| | June 2009 (six months) | June 2008 (six months) | December 2008 (12 months) |
|----------------------------------|------------------------------|------------------------------|---------------------------------|
| Property under management | £3.2bn | £5.3bn | £4.0bn |
| Net Assets | £51m | £493m | £186m |
| Triple net diluted NAV per share | £0.71 | £7.06 | £2.67 |
| Recurring pre-tax profit | £10.3m | £16.4m | £27.6m |
| Dividend per share | – | 5p | 5p |
| Loss after tax | £(135)m | £(201)m | £(502)m |

Operating review

Tenant markets

Tenant markets continued to face a challenging trading environment in the first six months of 2009, though there were signs of stabilisation in figures for occupancy, passing rent and administrations in the second quarter. The Group also continues to benefit from the diversification offered by the defensive qualities of its German joint venture, which is 70% anchored by food retailers with strong financial covenants, despite the strengthening of the pound against the euro in the period. Operationally, the skills of the Group's asset and property management teams continue to be demonstrated in letting performance and rent collection statistics.

Occupancy levels

Despite the challenging trading environment, occupancy continued to hold up well. Across the three funds, it fell from 94.6% at the year end to 93.1% at the end of the first quarter before recovering to 93.6% at 30 June 2009. The Mall's occupancy levels remained broadly unchanged across the six-month period, ending at 94.3%, despite some high profile administrations in the first quarter, which demonstrated the continuing ability of our teams to find tenants for vacant space in a challenging market. The Junction and X-Leisure Funds saw falls, reflecting both significant insolvencies in the period and the impact of property disposals, but maintain reasonable occupancy levels at 91.2% and 94.0% respectively.

The portfolio held by the German joint venture continued to show its defensive qualities, with occupancy remaining high at 98.1% as of 30 June 2009.

Passing rent

Passing rent across the three funds fell by 3.4% on a like-for-like basis over the first six months of 2009, primarily because of a 5.0% fall in The Mall which was only partially offset by a 1.2% increase in X-Leisure. In the second quarter, passing rent fell by only 0.6%.

In Germany, where the majority of leases are index-linked, passing rent increased by 0.9% over the first six months of the year.

Rent collection rates were also strong, with 96.4% of the June rent roll (excluding administrations) collected within 30 days across the three funds. The Mall's collection rate for the quarter was particularly strong at over 97%.

Administrations

The Group continues to monitor administrations as a key performance indicator. Following a significant number of administrations in the first quarter, the pace slowed in the second quarter.

- The Mall saw administrations in 103 units in the first half of 2009, representing passing rent of £7.4 million or 5.0% of the rent roll at the start of the year. 73 of these administrations, with passing rent of £5.0 million, were in the first quarter. 47 of these administrations were still trading and 14 had already been re-let as at the date of this report, meaning that 64% of administrations (by value of passing rent) were still income-generating.
- The Junction saw administrations in five units in the first half of 2009, representing passing rent of £1.5 million or 3.2% of the rent roll at the start of the year. All of these administrations were in the first quarter and none were still trading as at the date of this report, though one is being covered by a guarantee of £0.4 million passing rent for the remainder of the lease.
- X-Leisure saw administrations in six units in the first half of 2009, representing passing rent of £0.7 million or 1.6% of the like-for-like rent roll at the start of the year. Five of these administrations, with passing rent of £0.3 million, were in the first quarter. None of these administrations were still trading as at the date of this report.
- There were administrations in two units in the German portfolio during the first half of 2009, representing passing rent of £0.1 million or 0.2% of the rent roll at the start of the year.

Monthly rent payments

The Group continues to monitor the number of requests to move to monthly rent payments and consider such requests on a case-by-case basis. The percentage of tenants across the three funds, paying monthly under non-contractual concessions increased in the first half of the year, from 5.2% at the end of 2008 to 10.9% as of 30 June 2009. Contractual concessions (i.e. monthly payment plans as a term of the lease) increased less sharply, with 8.5% of rent now paid this way across the three funds compared to 6.7% at the end of 2008. The Junction continues to have the highest proportion of monthly payers under both measures.

New lettings and rent reviews

The Group continues to make new lettings and secure lease renewals. For example, in the six months to 30 June 2009, The Mall made 154 new lettings (including temporary lettings) at a passing rent of £4.7 million, which excluding turnover deals, was 2.9% above ERV at the start of the relevant quarter. Excluding temporary lettings and turnover deals, this was 4.2% below the previous passing rent.

The Group also completed 111 rent reviews in the six months to 30 June 2009 at passing rent of £16.5 million which was 1.9% above ERV at the start of the relevant quarter.

Property investment markets

Significant yield shift continued to be the key driver of UK property investment markets in the first half of 2009. This movement reflects the continuing shortage of debt finance but also increasing concerns about security of income in the face of fears of a prolonged recession. Nevertheless, although remaining volatile, there was evidence that the rate of change has been slowing, since the second quarter movements in The Junction and X-Leisure Funds were much lower than in the first quarter.

Yield shift in Germany has been much lower over the same period, reflecting the defensive nature of the portfolio.

Yield shift

| | 30 June 2009 | 30 December 2008 ¹ | Yield shift in period |
|--|-----------------|----------------------------------|--------------------------|
| Initial yields | | | |
| Mall | 8.25% | 7.15% | 1.10% |
| Junction | 7.35% | 6.21% | 1.14% |
| X-Leisure | 7.99% | 6.71% | 1.28% |
| UK weighted average | 8.01% | 6.75% | 1.26% |
| German joint venture | 6.73% | 6.51% | 0.22% |
| Nominal equivalent yields² | | | |
| Mall | 9.66% | 8.44% | 1.22% |
| Junction | 8.66% | 7.11% | 1.55% |
| X-Leisure | 9.04% | 7.75% | 1.29% |
| UK weighted average | 9.31% | 7.86% | 1.45% |

1 Adjusted to be like-for-like with 2009.

2 Nominal equivalent yields in Germany are equal to initial yields.

These rising yields, magnified by gearing at the fund and German joint venture level, have resulted in further significant falls in the net asset value of these investments in the first half of 2009.

Fund and German joint venture performance

| | Full year 2005 | Full year 2006 | Full year 2007 | Full year 2008 | Six months 2009 |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| Mall | | | | | |
| Property level returns | 16.5% | 17.6% | (3.3)% | (33.2)% | (17.7)% |
| Gearred returns | 22.8% | 26.3% | (13.2)% | (65.4)% | (59.3)% |
| IPD shopping centre index | 16.3% | 12.7% | (4.3)% | (22.0)% | (15.1)% |
| Junction | | | | | |
| Property level returns | 23.3% | 15.0% | (16.8)% | (26.1)% | (16.3)% |
| Gearred returns | 34.1% | 18.3% | (34.0)% | (57.1)% | (61.1)% |
| IPD retail parks index | 22.1% | 14.7% | (9.6)% | (25.6)% | (9.1)% |
| X-Leisure | | | | | |
| Property level returns | 15.3% | 19.7% | 2.1% | (21.9)% | (14.0)% |
| Gearred returns | 28.3% | 30.4% | (3.0)% | (48.2)% | (49.2)% |
| UK weighted average* | | | | | |
| Property level returns | 18.9% | 16.9% | (6.1)% | (28.2)% | (16.5)% |
| Gearred returns | 27.3% | 23.9% | (17.3)% | (58.5)% | (57.1)% |
| German joint venture | | | | | |
| Property level returns | | 15.2% | 7.5% | (5.2)% | (1.6)% |
| Gearred returns | | 34.2% | 16.2% | (32.4)% | (11.8)% |

* Based on Group exposure to the three funds.

Financial review

KPI summary

The key performance indicators that the Group uses to monitor performance are summarised in the table below and explained in more detail in the following paragraphs.

| | June 2009 (six months) | June 2008 (six months) | December 2008 (12 months) |
|----------------------------------|------------------------------|------------------------------|---------------------------------|
| Scale of business | | | |
| Property under management | £3.2bn | £5.3bn | £4.0bn |
| Investment returns | | | |
| Triple net diluted NAV per share | £0.71 | £7.06 | £2.67 |
| Total return on equity | (73)% | (28)% | (72)% |
| Period end share price | £0.33 | £1.90 | £0.45 |
| Total shareholder return | (28)% | (47)% | (77)% |
| Profitability | | | |
| Recurring pre-tax profit | £10.3m | £16.4m | £27.6m |
| Dividend per share | – | 5p | 5p |
| Loss before tax | £(131)m | £(197)m | £(516)m |
| Debt | | | |
| Group debt | £119m | £516m | £113m |
| Off-balance sheet debt | £586m | £551m | £723m |
| Total debt | £705m | £1,067m | £836m |
| Gearing | | | |
| Group debt to equity ratio* | 235% | 105% | 60% |

* Group debt divided by shareholders' equity.

Property under management

Property under management has fallen in the first half of 2009, largely reflecting continuing falls in valuations. In addition, the following disposals have taken place:

- X-Leisure sold the O2 Centre, Finchley Road in April 2009 for £92.5 million at a net initial yield of 7.8%.
- The Junction made one minor disposal of a non-core property, Victory Industrial Park, Portsmouth, in April 2009 for £1.65 million at a net initial yield of 9.3%.
- The Group sold its remaining interest in the Cardiff joint venture to its joint venture partner in May 2009 for £1.2 million at an estimated contracted net initial yield of 5.9%.

Chief Executive's statement continued

Investment returns

Almost all measures of investment returns saw further falls in the first half of 2009, reflecting the overall loss for the period which was broken down as follows:

| | June 2009 (six months) £m | June 2008 (six months) £m | December 2008 (12 months) £m |
|--|------------------------------------|------------------------------------|---------------------------------------|
| Recurring pre-tax profit | 10.3 | 16.4 | 27.6 |
| Revaluation of investment and trading properties | (133.2) | (191.9) | (397.4) |
| Performance fees | – | (4.0) | (9.9) |
| Loss on disposal | (2.8) | (11.9) | (42.3) |
| Deemed disposals and related costs | (2.9) | (29.1) | (28.8) |
| Revaluation of financial instruments | 0.8 | 24.2 | (47.8) |
| Other non-recurring items | (3.0) | (0.2) | (17.7) |
| Tax and reserves movements | (4.7) | (2.1) | 13.6 |
| Total returns | (135.5) | (198.6) | (502.7) |
| As % of opening equity | (72.8)% | (28.3)% | (71.5)% |

The main factors behind the significant loss in the period were:

- Continuing revaluation losses and losses on disposals across the Group's portfolio, reflecting valuation movements in the overall property investment market in both the UK and Germany. As described above, yield shift was the key driver but increasing concerns over future income levels have also begun to impact valuations.
- The deemed disposal that represented the dilution caused by the Group's decision not to participate fully in The Junction's open offer.

The other non-recurring items include impairments, one-off expenses and the costs of the Group's various management incentive schemes. These items are split out in more detail in note 2 to the condensed financial statements.

Profitability

The Group measures segment profitability, calculated on a see through basis, based on recurring pre-tax profit for each segment. Recurring pre-tax profit is calculated in note 2a to the condensed financial statements.

- **Asset businesses:** these comprise property investment activities, where the Group earns a share of the net rent less net interest arising from its interests in associates, joint ventures and wholly-owned entities in both the UK and Germany.
- **Earnings businesses:** these comprise property management activities and the Group's SNO!zone operating business.

Recurring pre-tax profit

| | June 2009 (six months) £m | June 2008 (six months) £m | December 2008 (12 months) £m |
|-----------------------------|------------------------------------|------------------------------------|---------------------------------------|
| Property investment UK | 3.4 | 4.5 | 6.1 |
| Property investment Germany | 3.1 | 5.8 | 11.1 |
| Managing property funds | 2.7 | 4.6 | 8.9 |
| SNO!zone | 1.1 | 1.5 | 1.5 |
| Recurring pre-tax profit | 10.3 | 16.4 | 27.6 |

- **Property investment:** the Group earns profits from its share of the net rental income less net interest payable in its investments. The cost of managing its wholly-owned investment and trading properties is allocated to the property investment business.

The fall in UK profit is largely the result of falling net rental income from the funds, reflecting both a higher level of administrations in the period, and the impact of asset sales and the deemed disposal in The Mall in June 2008. The latter factors were partially offset by reduced net interest payable in the funds. At present, the three main UK funds are not making distributions but are instead retaining cash to cover committed development costs and to maximise their financial flexibility in the light of the potential for further falls in valuations.

The fall in profit from Germany reflects the part-disposal to AREA in October 2008, as the prior year comparatives represent 100% of the portfolio for most of the year while the current period figures include only 50%.

- **Managing property funds:** a subsidiary of the Group, Capital & Regional Property Management Limited ("CRPM") earns fees from managing the funds and joint ventures and employs all the Group's staff. This property management business continued to be profitable at an operational level in the first six months of 2009, though falling fund valuations meant that income fell compared to 2008. The Group has begun to see the benefits of approximately £3 million per annum of cost savings and improved efficiencies made at the end of 2008, but is conscious of the impact on margins of further falls in valuations and continues to look for opportunities to increase efficiency.

Management fees for The Mall may be subject to renegotiation in the second half of 2009 but, following the open offers in The Junction and X-Leisure in 2009, CRPM now has secure contractual arrangements with the three main funds in line with their termination dates as follows:

- The Mall's expiry date is 30 June 2012 if not extended to 30 June 2017 following a continuation vote in June 2011. CRPM's management contract has the same termination date as the Fund (including any extension) and cannot be terminated earlier than 31 December 2012 for performance returns falling short of a specified benchmark.

- The Junction Fund has an effective termination date of 31 July 2013. CRPM's management contract has the same termination date as the Fund and cannot be terminated early for performance returns falling short of a specified benchmark.
- X-Leisure has a termination date of 31 December 2014 which may potentially be extended up to 31 December 2021 by a combination of fund manager recommendation and a continuation vote. The management contract has the same termination date as the Fund (including any extension) and cannot be terminated earlier than 31 December 2013 for performance returns falling short of a specified benchmark.

As part of the X-Leisure Fund's open offer, the asset, property and non-FSA regulated fund management activities of X-Leisure have been integrated into a new joint venture, X-Leisure Limited, which is 50% owned by CRPM and 50% by Hermes. Hermes continue to act as operator of the Fund, responsible for FSA regulated fund management activities. As described in note 19 to the condensed financial statements, X-Leisure Limited took over responsibility for the X-Leisure management contract with effect from 18 August 2009.

- **SNO!zone** profits for the period fell from £1.5 million in 2008 to £1.1 million in 2009. This reflects a continuation of the trends seen in 2008, where a strong trading performance at Milton Keynes was offset by higher rent and marketing costs.

Performance fees

As noted in the 2008 annual report, no further amounts can be clawed back in relation to historic performance fees and given the continuing falls in property values we do not anticipate that any performance fees will be earned in 2009.

A new basis for performance fees was agreed as part of the open offers on The Junction and X-Leisure Funds. They will now be calculated on the disposal of each fund's properties prior to or at its expiry date or, in the case of X-Leisure, its conversion into a listed vehicle, on any realised geared returns in excess of an IRR of 15% with no provision for clawback. The basis for calculating The Mall's performance fee may also change when discussions take place regarding management fees in the second half of 2009.

Balance sheet summaries

The Group presents its balance sheet in three ways:

- The enterprise balance sheet shows everything the Group manages.
- The "see-through" balance sheet shows the Group's economic exposure to the different property portfolios.
- The statutory balance sheet follows the accounting and statutory rules.

Three balance sheets at 30 June 2009

| | Enterprise £m | See through £m | Statutory £m |
|--|------------------|-------------------|-----------------|
| Fund properties | | | |
| Mall | 1,463 | 245 | 26 |
| Junction | 569 | 76 | 18 |
| X-Leisure | 523 | 101 | 18 |
| Joint venture properties | | | |
| Germany | 509 | 255 | 28 |
| Other joint ventures | 98 | 39 | (6) |
| Wholly-owned properties | | | |
| Great Northern, Hemel Hempstead and others | 90 | 90 | 90 |
| Total property | 3,252 | 806 | 174 |
| Working capital etc | (101) | (50) | (4) |
| Debt | (2,720) | (705) | (119) |
| Net assets | 431 | 51 | 51 |
| C&R shareholders | 51 | 51 | 51 |
| Fund and other joint venture investors | 380 | | |
| Total equity | 431 | 51 | 51 |

NAV per share is £0.71 on a triple net diluted basis, down from £2.67 at December 2008. As noted above under the commentary on Investment Returns, the major causes of this were:

- The adverse shift in valuation yields which led to losses on revaluation.
- The one-off impact of The Junction rights issue and the dilution following the Group's decision not to participate fully.

Debt

During the period, Group debt increased slightly from £113 million to £119 million because of additional drawdowns on the core facility, including the settlement of a foreign exchange hedge and the payment of performance fee clawbacks to X-Leisure. Off balance sheet debt fell from £723 million to £586 million, largely as a result of the open offer in The Junction, the proceeds of which were used to repay debt and which also reduced the Group's percentage interest in the Fund. The strengthening of sterling against the euro also led to a fall in the value of the Group's share of German debt.

Group debt

The breakdown of Group debt at the end of the period, prior to the renegotiations described below, was as follows:

| | Debt at 30 June 2009 £m ¹ | Average interest rate % | Fixed % ² | Duration of fixing (months) | Duration to loan expiry (months) |
|--------------------------------|---|----------------------------------|-------------------------|-----------------------------------|---|
| Core revolving credit facility | 34.7 | 6.54 | 187 | 18 | 19 |
| Great Northern debt | 66.5 | 6.39 | 100 | 15 | 15 |
| Hemel Hempstead debt | 9.9 | 6.27 | 106 | 2 | 2 |
| 10 LGP debt | 8.1 | 2.52 | – | – | 4 |
| | 119.2 | 6.12 | 119 | 16 | 15 |

1 Excluding unamortised issue costs.

2 Swap principal divided by amount drawn.

- **The core revolving credit facility** was £34.7 million drawn at 30 June 2009. The bank agreed to waive testing of the gearing and asset cover covenants as at that date until 30 September 2009 pending renegotiation of the terms of the debt but had they been tested the calculations were as follows:

| | Covenant | Actual |
|----------------|-------------------|--------|
| Gearing | Less than 200% | 153% |
| Interest cover | Greater than 150% | 466% |
| Asset cover | Greater than 200% | 229% |

Because of the restrictions of the look forward asset cover covenant, only a further £2.3 million of the facility was actually available for drawdown at the end of the period.

The facility has now been renegotiated, subject to completion of the Capital Raising, to provide the Group with sufficient financial flexibility for the foreseeable future. The amount of the facility is £58 million. The expiry date has been extended to September 2013 and the margin payable has been increased to 3.5%, reducing to 3% in line with the headroom on the asset cover test, which now includes the value of the Group's investment in the German joint venture as well as The Mall, Junction and X-Leisure Funds.

- **Great Northern** was financed with a £66.5 million loan that has now been renegotiated, subject to completion of the Capital Raising. The new loan is for £65.5 million and the maturity has been extended from October 2010 to October 2013. The margin payable has been increased to 2% with an LTV covenant of 100% until December 2012, after which it reduces to 90% until June 2013 and 80% thereafter. The ICR is 135%.
- **10 Lower Grosvenor Place** is financed with an £8.1 million loan that has now been renegotiated, subject to completion of the Capital Raising. The new loan is for £8.0 million and the maturity has been extended from October 2009 to March 2011. The margin payable has been increased to 3% with an LTV covenant of 80% and there is no ICR.

- **Hemel Hempstead** was financed with a £9.9 million loan that has now been renegotiated. The new loan is for £9.0 million and the maturity has been extended from September 2009 to August 2012, with amortisation of £1 million in November 2009 and £500,000 in August 2010, February 2011 and August 2011. The margin payable has been increased to 3% until November 2009, then 2.75% until August 2010 and 2.5% thereafter. There is an LTV holiday until February 2011 then the LTV is set at 75%, falling to 70% as at February 2012. The ICR remains at 150%.

Off balance sheet debt

The breakdown of off balance sheet debt at the end of the period was as follows:

| | Debt at 30 June 2009 £m ¹ | Average interest rate % | Fixed % | Duration of fixing (months) | Duration to loan expiry (months) |
|--|---|----------------------------------|------------|-----------------------------------|---|
| Mall (16.7% share) | 208.4 | 5.01 | 100 | 34 | 34 |
| Junction (13.4% share) | 59.7 | 7.56 | 100 | 57 | 57 |
| X-Leisure (19.4% share) ² | 77.8 | 6.93 | 99 | 24 | 34 |
| German joint venture (48.8% share) | 200.9 | 4.68 | 99 | 26 | 41 |
| Other JVs and associates (30%-50% share) | 38.8 | 5.56 | 88 | 31 | 45 |
| | 585.6 | 5.45 | 99 | 32 | 39 |

1 Excluding unamortised issue costs.

2 Before the open offer on the Fund in July 2009.

- **The Mall** continues to be funded entirely by bond financing which has remained unchanged over the course of the year to date. As at 30 June 2009, the LTV of the Fund was 80.5%. There is no effective LTV restriction on the bonds, though the Fund is unable to make any additional borrowing until its LTV falls back below 60%.

There is also an interest cover covenant of 130% on the bonds. For the year to 30 June 2009, actual interest cover was 183%.

- **The Junction** used £60 million of the proceeds of its open offer to pay down debt on its bank facility. Since the open offer also resulted in a reduction in the Group's percentage holding in the Fund, its share of the Fund's borrowings included in off balance sheet debt was reduced by a further £70 million.

As part of the refinancing agreement connected to the open offer, the size of the facility was reduced to £455 million and its life extended to April 2014. The LTV covenant on the facility was also increased to 90% until September 2010, reducing in tiers to 65% after September 2012, with the level of margin payable linked to the level of the LTV covenant. At 30 June 2009, the LTV was 75.4%.

There is also an interest cover covenant of 130% on the facility until September 2012, after which it increases to 135%. For the year to 30 June 2009, actual interest cover was 152%.

- **X-Leisure** used £87 million of the proceeds of the sale of the O2 Centre to repay debt on its central syndicated facility. Since the balance sheet date, the majority of the proceeds from the Fund's £50 million open offer has been used to pay down this debt, and since the open offer also resulted in a reduction in the Group's percentage holding in the Fund, its see-through share of the Fund's borrowings has fallen by £34.1 million.

As part of the refinancing agreement connected to the open offer, the size of the facility has been reduced to £300 million and its life extended to March 2014. The LTV covenant on the facility, which had been waived at 30 June 2009, was increased to 90% until December 2010, reducing in tiers to 65% at July 2013. At 30 June 2009, the LTV was 77.1%, though on a pro forma basis (taking into account the repayment of debt following the open offer) it would have been 69.0%.

There is also an interest cover covenant of 130% on the facility until March 2012, after which it increases in tiers to 150% as at April 2013. For the year to 30 June 2009, actual interest cover was 171%.

The syndicate of banks has also agreed in principle to finance the Fund's Brighton Marina asset, which is currently funded through an asset securitisation due to expire in October 2009. The Fund has also renegotiated the terms of its facilities on the Milton Keynes and Castleford properties, including an increase in LTV covenants.

- **The German portfolio** continues to be financed by euro facilities with six banks totalling €483 million. The strengthening of sterling against the euro in the first six months of 2009 has meant that the Group's share of this borrowing has fallen from £228 million to £201 million. The Group's €5 million working capital loan facility to the German joint venture remained undrawn at 30 June 2009.

All LTV and ICR covenants on the German debt were met at 30 June 2009. The LTV covenants on two facilities are regarded to be at risk but can be remedied using cash that is either currently held or can be generated in the future by the relevant joint venture company.

- **Other JVs** include the investments in Braehead and the MEN Arena. LTV covenants on these facilities are currently at risk but the impact of a breach would not be material to the Group.

Interest rate hedging

The Group has a number of interest rate swaps against loans on its wholly-owned properties and the core revolving credit facility. It is also exposed to a share of interest rate swaps held by its associates and joint ventures. The effect of these swaps is to fix the amount of interest payable on the loans but at the end of 2008 falling interest rates meant they were valued as liabilities, though these will not be crystallised unless the underlying swaps are closed out. In the first half of 2009, expectations of rising sterling interest rates in the medium term have led to an unrealised gain of £2.6 million on these valuations. This has been partially offset by an unrealised loss of £1.8 million on the valuation of the Group's share of interest rate swaps in the German joint venture, following falls in euro interest rates during the period.

Foreign exchange hedging

The Group uses forward contracts to hedge against changes in exchange rates in relation to its German joint venture. During the period, the Group entered two forward contracts to fix the amount payable on the expiry of its existing hedge and to extend the life of the hedge to April 2010 at a reduced amount of €47 million. Following the strengthening of sterling against the euro over the course of 2009, the cash settlement on 30 April 2009 as a consequence of these transactions was a payment of £8.7 million and the value of the remaining forward contract is an asset of £1.0 million.

To the extent the hedge is effective under accounting rules, valuation movements on the forward contracts are shown in reserves where they partially offset foreign exchange movements in the value of the Group's German joint venture.

Tax

The Group tries to ensure that its corporate structure remains as tax efficient as possible under current legislation. During 2009, there has been a current tax charge of £3.2 million, reflecting an increase in provisions in respect of previous transactions that have yet to be agreed with the tax authorities, and a deferred tax charge of £0.7 million, reflecting falls in the expectations of future taxable profits that might be available to utilise the Group's existing tax losses. A liability of £19.5 million (including interest), which has been fully provided, is now expected to crystallise following the outcome of litigation in respect of another taxpayer, as described in note 6 to the condensed financial statements.

Dividends

In the light of the continuing uncertainty in the property market and the consequent desirability of the Group conserving its cash resources, the Board is not recommending the payment of an interim dividend at this time.

The Company's distributable reserves remain negative at the end of the period and it would therefore have been unable to pay an interim dividend in any event. The Company has received permission from the courts to convert its share premium account into distributable reserves and has structured the Capital Raising so as to create further distributable reserves from the proceeds. These actions will give the Board greater flexibility to pay dividends in the future.

The Board intends to restart paying dividends when it considers it is prudent to do so in line with the Group's cash generating capability, but they will be restricted to no more than 50% of the operating cash flow less interest and tax in line with the Group's new banking arrangements.

Outlook

Although there are some signs that sentiment in the commercial property market has now begun to improve after the sharp continued deterioration in the first half of 2009, there remain some downside risks for property valuation.

The quality of the Group's operating platform in community retail and leisure asset management, combined with the enhanced balance sheet that would result from the Capital Raising, would leave the Group well placed to take advantage of investing in new opportunities, once the turn in the market occurs.

Hugh Scott-Barrett
Chief Executive

Principal risks and uncertainties

There are a number of principal risks and uncertainties that could have a material impact on the Group's future performance and could cause actual results to differ materially from expected and historical results. References to "the Group" include the funds and joint ventures in which Capital & Regional has an interest.

Funding and treasury risks

Funding

The Group has a significant amount of indebtedness that may limit its financial and operational flexibility. The Group's ability to generate sufficient cash flow and to refinance its indebtedness when due will depend on its future financial performance, which over the longer term will be affected by a range of economic, competitive and business factors, many of which are outside the Group's control. Given the existing level of indebtedness of the Group, and the significant deterioration in the credit markets, there can be no assurance that the Group will be able to refinance its existing debt when it matures or obtain additional debt financing on economic terms.

Covenant compliance

The various borrowings of the Group contain restrictions and covenants. A breach of any of these restrictions or covenants, whether as a result of declining property values or otherwise, could cause a default with respect to the debt and, if not remedied, could result in the accelerated maturity of some or all of the indebtedness of the Group. If over the longer term the Group is unable to dispose of sufficient assets to fund repayment of debt due in the event of an acceleration of maturity, the Group risks becoming insolvent or otherwise ceasing its operations.

Foreign exchange rates

The Group may incur losses as a result of fluctuations in the exchange rate between the sterling and the euro in respect of its German joint venture for which it has not, or not effectively, hedged its risk. The underlying exposure on the euro value of its German joint venture properties is partially hedged by funding their purchase with euro denominated debt. The Group hedges part of the remaining exposure through the use of derivatives such as forward contracts, which may limit gains, result in losses or have other adverse consequences. There may be a timing difference on the cash settlement of a gain or loss on the derivative and the realisation of the equal and opposite gain on the investment being hedged, which will only arise when that asset is sold.

Interest rate hedging

The expiration of interest rate swaps, entering into certain transactions for which hedging is not available on commercially reasonable terms (if at all), or the inaccurate hedging of interest rate exposure, may expose the Group to market interest rate risk.

The hedging transactions used by the Group to minimise interest rate risk may limit gains, result in losses or have other adverse consequences. Where interest rate swaps are treated as liabilities because the contracted interest rate is above the current market rate, if the underlying asset is sold before the swap matures it can result in the realisation of significant losses. Because a significant proportion of the Group's indebtedness has been incurred at a fixed rate of interest, the Group will not fully benefit from the current low interest rate environment. In addition, the Group is potentially subject to credit risk in the current economic environment based on hedge counterparties' inability to perform their obligations.

Property risks

Property investment market risks

The Group's business is dependent on economic conditions and commercial real estate markets, which have recently experienced significant distress. Small changes in property market yields can have a significant effect on the value of the properties owned by the Group. The effect of the significant levels of debt funding magnifies the impact of valuation movements. The real estate markets in the UK and, to a lesser extent Germany, have been adversely impacted by the ongoing global banking crisis, with property values demonstrating substantial and continuing declines. It is not clear for how long or the extent to which economic conditions will continue to impact these markets adversely, or to what degree economic conditions will deteriorate further.

Tenant risks

The Group is subject to the credit risks associated with tenants and is specifically dependent on the retail and leisure sectors, which are exposed to declining consumer spending in the current economic climate. A significant decline in overall retail and leisure tenant revenues, or the bankruptcy or insolvency of significant individual tenants, or of a substantial number of smaller tenants, would materially decrease revenues (including SNO!zone revenues) and available cash, and could also materially lower the value of the properties owned by the Group. Retail tenants are also facing increasing competition from major supermarkets and hypermarkets as they expand the range of products offered and from the increased penetration of online and discount retailers. Any resulting trade diversion from traditional retail outlets to the internet and major supermarkets could adversely affect certain of the Group's tenants, with the risk that tenant defaults and voids could increase.

Valuations

The Group's investment and trading properties are generally valued by external valuers. These valuations are inherently subjective due to the individual nature of each property and as a result are subject to a degree of uncertainty. They are also made on the basis of assumptions that may not prove to be accurate. As a result, property valuations could be overstated or understated and there is also no assurance that the valuations of current or prospective properties of the Group will be reflected in actual transaction prices, even where such transactions occur shortly after the relevant valuation date.

Property management income

A significant part of the Group's income is derived from property and asset management fees, which its wholly-owned subsidiary CRPM earns as property and asset manager pursuant to management contracts with each of the three funds in which it has investments. This income is to a large extent based upon property valuations and as property values have fallen, so has the income derived from this activity. These long-term management contracts can be terminated under certain circumstances, including amongst other things, underperformance of the property portfolio over a period of time, failure to hold the minimum number of fund units required, change of control, or negligence.

Nature of investments

It may not be possible for the Group to realise its investments in associates and joint ventures at the net asset values carried in the Group's accounts. The Group's principal investments comprise units in the funds and the shares in its German joint venture. The market for these units and shares is illiquid. There may also be other restrictions on the ability to sell these investments in the joint venture agreements and fund management agreements, such as the requirement to hold a minimum number or value of the units in a given fund so long as the Group acts as property and asset manager for that fund.

Whilst the Group exercises significant influence over its associates and joint ventures, in most cases it requires the consent of others prior to any sale or purchase of property by those associates and joint ventures. It is therefore unable to exercise full control over its investments and may, for example, be unable or unwilling to contribute to a cash call or equity offering, which would result in its interest being diluted, or be materially affected by the insolvency or financial distress of a joint venture partner.

Other risks

Tax and regulation

The Group is exposed to changes in tax legislation or the interpretation of tax legislation, particularly changes in the basis of taxation or those directed at offshore structures. In addition, the Group is potentially exposed to tax liabilities in respect of previous transactions undertaken where the tax authorities disagree with the tax treatment adopted. Note 6 to the condensed financial statements has further information regarding tax liabilities and provisions.

Changes in property-related regulations could also adversely affect the Group.

Loss of key management

The Group's business is dependent on the skills of a small number of key individuals. Whilst the Group has ongoing service agreements with each of these individuals, their retention cannot be guaranteed. Equally, the ability to attract new employees with the appropriate expertise and skills cannot be guaranteed.

The risks noted above do not comprise all those potentially faced by the Group and are not intended to be presented in any order of priority. Additional risks and uncertainties currently unknown to the Group, or which the Group currently deems immaterial, may also have an adverse effect on the financial condition or business of the Group in the future. These issues are kept under constant review to allow the Group to react in an appropriate and timely manner to help mitigate the impact of such risks.

Going concern

The Group has prepared cash flow and covenant compliance forecasts to demonstrate that it has adequate resources available to continue in operation for the foreseeable future, being at least 12 months from the date of this report. In these forecasts the directors specifically consider anticipated future market conditions and the Group's principal risks and uncertainties.

During the year to date, the Group has suffered further significant decreases in the value of its property assets. As a consequence the Group is at risk of breaching the covenants on certain of its borrowing facilities and is dependent on raising additional equity capital in order to secure renegotiated bank facilities and provide the working capital required to ensure the Group can meet its liabilities as they fall due.

The Capital Raising is subject to a shareholder vote. If shareholders do not vote in favour of the transaction, the Group would need to obtain covenant waivers to provide time to renegotiate the terms of the Group's existing credit facilities and potentially dispose of some of its assets to meet the lending banks' requirements. There can be no certainty that the Group would be able to obtain further covenant waivers, raise sufficient funds from the sale of assets, or be able to renegotiate its credit facilities. As a consequence, in such circumstances it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors consider that because there can be no certainty that shareholders will vote in favour of the Capital Raising, a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern.

The directors believe that the Capital Raising is in the best interests of shareholders and therefore believe that shareholders will vote in favour of the various resolutions required for it to be successfully completed.

Therefore, after making enquiries, and considering the likelihood of completion of the Capital Raising, the directors have concluded that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the condensed set of financial statements for the six months ended 30 June 2009.

Responsibility statement

The directors confirm that to the best of their knowledge:

- a) the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union;
- b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

F Desai
Company Secretary
20 August 2009

The condensed set of financial statements is available for download on the Company's website www.capreg.com

Forward-looking statements

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward looking in nature and are subject to risks and uncertainties. They have been made by the directors in good faith based on the information available to them up to the time of their approval of this report; and should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information. Actual future results may differ materially from those expressed in or implied by these statements. Many of these risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of government regulators and other risk factors such as the Group's ability to continue to obtain financing to meet its liquidity needs, changes in the political, social and regulatory framework in which the Company operates or in economic or technological trends or conditions, including inflation and consumer confidence, on a global, regional or national basis. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this document. The Group does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document. Information contained in this document relating to the Group should not be relied upon as a guide to future performance.

Condensed consolidated income statement

For the six months to 30 June 2009

| | Note | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|---|------|---|---|--------------------------------------|
| Rents, management fees and other revenue | | 20.2 | 43.4 | 75.3 |
| Performance fees | | — | (4.0) | (9.9) |
| Revenue | | 20.2 | 39.4 | 65.4 |
| Cost of sales | 4 | (11.8) | (16.3) | (41.7) |
| Gross profit | | 8.4 | 23.1 | 23.7 |
| Administrative costs | | (8.8) | (14.6) | (23.1) |
| Share of loss in joint ventures and associates | 11a | (123.6) | (159.1) | (432.9) |
| Loss on revaluation of investment properties | 9a | (4.1) | (25.5) | (31.7) |
| Profit/(loss) on sale of properties and investments | 9b | 0.9 | (11.5) | (6.5) |
| Impairment of goodwill | 10 | (1.0) | — | (8.0) |
| Loss on ordinary activities before financing | | (128.2) | (187.6) | (478.5) |
| Finance income | | 1.4 | 0.8 | 2.4 |
| Finance costs | 5 | (4.0) | (9.7) | (40.2) |
| Loss before tax | | (130.8) | (196.5) | (516.3) |
| Current tax | 6a | (3.2) | (0.1) | 1.1 |
| Deferred tax | 6a | (0.7) | (4.8) | 13.0 |
| Tax (charge)/credit | | (3.9) | (4.9) | 14.1 |
| Loss for the period | | (134.7) | (201.4) | (502.2) |
| Basic loss per share | 8 | (194)p | (286)p | (715)p |
| Diluted loss per share | 8 | (194)p | (286)p | (715)p |

All results derive from continuing activities. The loss for the current period and the preceding year is fully attributable to equity shareholders.

Condensed consolidated balance sheet

As at 30 June 2009

| | Note | (Unaudited) 30 June 2009 £m | (Unaudited) 30 June 2008 £m | 30 December 2008 £m |
|---|------|--------------------------------------|--------------------------------------|---------------------------|
| Non-current assets | | | | |
| Investment property | 9a | 12.3 | 522.9 | 15.3 |
| Interest in long leasehold property | 9a | 10.1 | 13.4 | 10.8 |
| Goodwill | 10 | 3.2 | 12.2 | 4.2 |
| Plant and equipment | | 0.9 | 1.4 | 1.3 |
| Available-for-sale investments | | 0.2 | 0.3 | 0.2 |
| Receivables | | 24.0 | 7.6 | 30.2 |
| Investment in associates | 11b | 62.2 | 444.4 | 182.3 |
| Investment in joint ventures | 11c | 22.9 | 8.6 | 34.4 |
| Deferred tax asset | | 0.7 | – | 1.4 |
| Total non-current assets | | 136.5 | 1,010.8 | 280.1 |
| Current assets | | | | |
| Trading property | 9a | 67.8 | 89.5 | 72.8 |
| Receivables | | 6.4 | 24.9 | 14.4 |
| Current tax recoverable | | 2.0 | 1.6 | 1.6 |
| Cash and cash equivalents | | 4.2 | 27.8 | 4.1 |
| Total current assets | | 80.4 | 143.8 | 92.9 |
| Total assets | | 216.9 | 1,154.6 | 373.0 |
| Current liabilities | | | | |
| Bank loans | | (18.0) | (0.2) | (18.7) |
| Trade and other payables | 12 | (24.4) | (90.5) | (55.7) |
| Current tax liabilities | | (19.5) | (18.4) | (15.9) |
| | | (61.9) | (109.1) | (90.3) |
| Non-current liabilities | | | | |
| Bank loans | | (101.1) | (515.5) | (93.8) |
| Other payables | | (3.1) | (14.5) | (2.8) |
| Deferred tax liabilities | | – | (22.3) | – |
| Total non-current liabilities | | (104.2) | (522.3) | (96.6) |
| Total liabilities | | (166.1) | (661.4) | (186.9) |
| Net assets | | 50.8 | 922.1 | 186.1 |
| Equity | | | | |
| Share capital | | 7.1 | 7.1 | 7.1 |
| Share premium account | 13 | 220.5 | 220.5 | 220.5 |
| Revaluation reserve | | – | 0.4 | – |
| Other reserves | 13 | 13.2 | 15.6 | 13.8 |
| Capital redemption reserve | 13 | 4.4 | 4.4 | 4.4 |
| Own shares held | 13 | (9.7) | (8.7) | (9.7) |
| Retained (loss)/earnings | 13 | (184.7) | 253.9 | (50.0) |
| Equity shareholders' funds | | 50.8 | 493.2 | 186.1 |
| Basic net assets per share | 15 | £0.71 | £6.92 | £2.61 |
| Triple net diluted net assets per share | 15 | £0.71 | £7.06 | £2.67 |
| EPRA diluted net assets per share | 15 | £1.12 | £6.86 | £3.25 |

Condensed consolidated statement of recognised income and expense

For the six months to 30 June 2009

| | Note | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|---|------|---|---|--------------------------------------|
| Revaluation loss on owner occupied property | | – | (2.0) | (2.4) |
| Foreign exchange translation differences | | (7.2) | 9.5 | 5.9 |
| Net investment hedge | | 6.4 | (4.7) | (4.0) |
| | | (0.8) | 2.8 | (0.5) |
| Loss for the period | | (134.7) | (201.4) | (502.2) |
| Total recognised income and expense | | (135.5) | (198.6) | (502.7) |
| Attributable to: | | | | |
| Equity shareholders | 16 | (135.5) | (198.6) | (502.7) |

Reconciliation of movements in equity shareholders' funds

For the six months to 30 June 2009

| | Note | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|--|------|---|---|--------------------------------------|
| Opening equity shareholders' funds | 16 | 186.1 | 703.0 | 703.0 |
| Issue of shares | | – | 0.8 | 0.8 |
| Purchase of own shares | | – | – | (0.7) |
| Credit in respect of charge for share-based payments | | 0.2 | – | 1.2 |
| Amortisation of IFRS 1 reserve | | – | (0.1) | (0.1) |
| | | 186.3 | 703.7 | 704.2 |
| Total recognised income and expense | | (135.5) | (198.6) | (502.7) |
| | | 50.8 | 505.1 | 201.5 |
| Dividends paid | 7 | – | (11.9) | (15.4) |
| Closing equity shareholders' funds | | 50.8 | 493.2 | 186.1 |

Condensed consolidated cash flow statement

For the six months to 30 June 2009

| | Note | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|---|------|---|---|--------------------------------------|
| Net cash generated from operations | 14 | 1.1 | 3.2 | (23.5) |
| Distributions received from joint ventures and associates | | 2.2 | 9.6 | 20.4 |
| Interest paid | | (4.5) | (16.5) | (25.6) |
| Interest received | | – | 0.8 | 1.5 |
| Income taxes paid | | (0.1) | (0.2) | (0.8) |
| Cash flows from operating activities | | (1.3) | (3.1) | (28.0) |
| Investing activities | | | | |
| Capital expenditure on investment and trading properties | | – | (1.1) | (1.5) |
| Disposals of other fixed assets | | – | (0.1) | (0.3) |
| Disposals of subsidiaries | | 1.3 | 32.2 | 75.1 |
| Cash disposed of in business combinations | 17 | (0.1) | (4.0) | (19.1) |
| Investment in associate | 11b | (0.6) | – | – |
| Investment in joint ventures | 11c | (2.1) | (1.7) | (6.7) |
| Loans to joint ventures | | (0.9) | (0.9) | (5.4) |
| Loans repaid by joint ventures | | 5.9 | – | 9.5 |
| Cash flows from investing activities | | 3.5 | 24.4 | 51.6 |
| Financing activities | | | | |
| Proceeds from the issue of ordinary share capital | | – | 0.8 | 0.8 |
| Purchase of own shares | | – | – | (0.7) |
| Bank loans drawn down | | 24.3 | 71.3 | 162.3 |
| Bank loans repaid | | (17.7) | (88.3) | (199.9) |
| Loan arrangement costs | | – | – | (0.3) |
| Settlement of foreign exchange forward | | (8.7) | (2.9) | (2.9) |
| Dividends paid to minority interests | | – | (0.7) | (1.3) |
| Equity dividends paid | | – | (11.9) | (15.4) |
| Cash flows from financing activities | | (2.1) | (31.7) | (57.4) |
| Net increase/(decrease) in cash and cash equivalents | | 0.1 | (10.4) | (33.8) |
| Cash and cash equivalents at the beginning of the period | | 4.1 | 37.1 | 37.1 |
| Effect of foreign exchange rate changes | | – | 1.1 | 0.8 |
| Cash and cash equivalents at the end of the period | | 4.2 | 27.8 | 4.1 |

Notes to the condensed financial statements

1 Accounting policies and general information

The condensed set of financial statements has been prepared using the accounting policies set out in the annual report for the year ended 30 December 2008 and has been prepared solely to provide additional information to shareholders as a body to assess the Group's strategies and the potential for those strategies to succeed, and the condensed set of financial statements should not be relied upon by any other party or for any other purpose.

The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting.

The comparative figures represent the Group's results and cash flows for the six month period from 31 December 2007 to 30 June 2008 and for the year from 31 December 2007 to 30 December 2008.

The comparative figures for the year to 30 December 2008 do not constitute the Company's statutory accounts for that period as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified but modified to include an emphasis of matter paragraph on the material uncertainty which may cast significant doubt on the Group and Company's ability to continue as a going concern. The audit report did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The Group's financial performance does not suffer materially from seasonal fluctuations.

Basis of preparation

The Group has prepared cash flow and covenant compliance forecasts to demonstrate that it has adequate resources available to continue in operation for the foreseeable future, being at least 12 months from the date of this report. In these forecasts the directors specifically considered anticipated future market conditions and the Group's principal risks and uncertainties.

During the year to date, the Group has suffered further significant decreases in the value of its property assets. As a consequence the Group is at risk of breaching the covenants on certain of its borrowing facilities and is dependent on raising additional equity capital in order to secure renegotiated bank facilities and provide the working capital required to ensure the Group can meet its liabilities as they fall due.

The planned raising of additional equity capital is subject to a shareholder vote. If shareholders do not vote in favour of the transaction, the Group would need to obtain covenant waivers to provide time to renegotiate the terms of the Group's existing credit facilities and potentially dispose of some of its assets to meet the lending banks' requirements. There can be no certainty that the Group would be able to obtain further covenant waivers, raise sufficient funds from the sale of assets, or be able to renegotiate its credit facilities. As a consequence, in such circumstances it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors consider that because there can be no certainty that shareholders will vote in favour of the Capital Raising, a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern.

The directors believe that the Capital Raising is in the best interests of shareholders and therefore believe that shareholders will vote in favour of the various resolutions required for it to be successfully completed.

Therefore, after making enquiries, and considering the likelihood of completion of the Capital Raising, the directors have concluded that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the condensed set of financial statements for the six months to 30 June 2009.

Change in accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, except for the following Standards and Interpretations which have been adopted by the Group in the current financial year.

IFRIC 12 Service Concession Agreements

IFRIC 13 Customer Loyalty Programmes

IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Amendments to IAS 39 and IFRS 7 (October 2008) Reclassification of Financial Assets

Amendments to IAS 39 and IFRS 7 (November 2008) Reclassification of Financial Assets – Effective Date and Transition

Amendments to IFRIC 9 and IAS 39 (March 2009) Embedded Derivatives

The adoption of these Standards and Interpretations has not led to any material changes in the Group's accounting policies.

2 Segmental analysis: non-statutory information – see through basis

2a Segmental analysis

| 2009 | Note | Assets | | Earnings | | Total (Unaudited) Six months to 30 June 2009 £m |
|---|-------|------------------------------------|---|------------------------------------|----------------|---|
| | | Property investment UK £m | Property investment Germany £m | Property management UK £m | SNO!zone £m | |
| Net rents | 2b | 22.1 | 8.9 | – | – | 31.0 |
| Net interest | 2b | (17.3) | (5.5) | – | – | (22.8) |
| Contribution | 2b | 4.8 | 3.4 | – | – | 8.2 |
| Management fees | | – | – | 8.9 | – | 8.9 |
| SNO!zone income | | – | – | – | 7.3 | 7.3 |
| SNO!zone expenses | 4 | – | – | – | (6.2) | (6.2) |
| Management expenses | | (1.4) | (0.3) | (6.2) | – | (7.9) |
| Recurring pre-tax profit | | 3.4 | 3.1 | 2.7 | 1.1 | 10.3 |
| Variable overhead | | – | – | (0.1) | – | (0.1) |
| Revaluation of investment properties | | (120.0) | (8.2) | – | – | (128.2) |
| Deemed disposal from The Junction open offer | 11a | (2.9) | – | – | – | (2.9) |
| Loss on disposals | | (2.8) | – | – | – | (2.8) |
| Impairment of trading properties | 4, 9a | (5.0) | – | – | – | (5.0) |
| Impairment of goodwill | 10 | – | – | (1.0) | – | (1.0) |
| Gain/(loss) on financial instruments | | 2.6 | (1.8) | – | – | 0.8 |
| Other non-recurring items | | (0.6) | (0.5) | (0.8) | – | (1.9) |
| (Loss)/profit before tax | | (125.3) | (7.4) | 0.8 | 1.1 | (130.8) |
| Tax | | | | | | (3.9) |
| Loss after tax | | | | | | (134.7) |
| Net assets/(liabilities) | | 21.1 | 28.4 | 3.7 | (2.4) | 50.8 |

2 Segmental analysis: non-statutory information – see through basis continued

2a Segmental analysis

| 2008 | Note | Assets | | Earnings | | (Unaudited) Six months to 30 June 2008 £m | Total Year to 30 December 2008 £m |
|--|------|------------------------------------|---|------------------------------------|----------------|---|---|
| | | Property investment UK £m | Property investment Germany £m | Property management UK £m | SNO!zone £m | | |
| Net rents | 2b | 32.3 | 15.7 | – | – | 48.0 | 86.1 |
| Net interest | 2b | (25.3) | (9.5) | – | – | (34.8) | (64.1) |
| Contribution | 2b | 7.0 | 6.2 | – | – | 13.2 | 22.0 |
| Management fees | | – | – | 11.8 | – | 11.8 | 22.8 |
| SNO!zone income | | – | – | – | 8.0 | 8.0 | 14.9 |
| SNO!zone expenses | 4 | – | – | – | (6.5) | (6.5) | (13.4) |
| Management expenses | | (2.5) | (0.4) | (7.2) | – | (10.1) | (18.7) |
| Recurring pre-tax profit | | 4.5 | 5.8 | 4.6 | 1.5 | 16.4 | 27.6 |
| Performance fees clawback | | – | – | (4.0) | – | (4.0) | (9.9) |
| Benefit of performance fees clawback | | 1.0 | – | – | – | 1.0 | 2.4 |
| Variable overhead | | – | – | (1.4) | – | (1.4) | 0.1 |
| Revaluation of investment properties | | (161.3) | (24.2) | – | – | (185.5) | (373.9) |
| Deemed disposal from The Mall open offer and related costs | | (26.2) | – | (2.9) | – | (29.1) | (28.8) |
| Loss on disposals | | (11.9) | – | – | – | (11.9) | (42.3) |
| Impairment of trading properties | 4 | (6.4) | – | – | – | (6.4) | (23.5) |
| Impairment of goodwill | 10 | – | – | – | – | – | (8.0) |
| Impairment of associate | | – | – | – | – | – | (8.4) |
| Gain/(loss) on financial instruments | | 20.3 | 3.9 | – | – | 24.2 | (47.8) |
| Other non-recurring items | | – | 1.9 | (1.7) | – | 0.2 | (3.8) |
| (Loss)/profit before tax | | (180.0) | (12.6) | (5.4) | 1.5 | (196.5) | (516.3) |
| Tax | | | | | | (4.9) | 14.1 |
| Loss after tax | | | | | | (201.4) | (502.2) |
| Net assets/(liabilities) | | 430.8 | 113.3 | (49.6) | (1.3) | 493.2 | 186.1 |

Notes to the condensed financial statements continued

2 Segmental analysis: non-statutory information – see through basis continued

2b Contribution

| 2009 | Note | Gross rents £m | Property costs £m | Void costs £m | Net rents £m | Net interest £m | (Unaudited) Six months to 30 June 2009 Total £m |
|---|------|-------------------|----------------------|------------------|-----------------|--------------------|---|
| Mall (Group share: 16.7%) ¹ | | 13.0 | (3.1) | (0.7) | 9.2 | (5.7) | 3.5 |
| Junction (Group share: 23.8%) ¹ | | 5.2 | (0.9) | 0.1 | 4.4 | (3.8) | 0.6 |
| X-Leisure (Group share: 19.4%) ¹ | | 4.9 | (1.2) | (0.1) | 3.6 | (2.6) | 1.0 |
| FIX UK (Group share: 20.0%) ¹ | | – | – | – | – | – | – |
| Total associates | 11d | 23.1 | (5.2) | (0.7) | 17.2 | (12.1) | 5.1 |
| German portfolio (Group share: 50%) ¹ | | 10.0 | (1.1) | – | 8.9 | (5.5) | 3.4 |
| Other (Group share: 30-50%) ¹ | | 2.0 | (0.5) | – | 1.5 | (1.6) | (0.1) |
| Total joint ventures | 11e | 12.0 | (1.6) | – | 10.4 | (7.1) | 3.3 |
| Statutory information | | | | | | | |
| UK investment properties | | 0.5 | (0.1) | – | 0.4 | (1.5) | (1.1) |
| Total rental income from investment property | | 0.5 | (0.1) | – | 0.4 | (1.5) | (1.1) |
| Great Northern ² | | 3.5 | (0.4) | (0.1) | 3.0 | (2.1) | 0.9 |
| Total rental income from wholly-owned property | | 4.0 | (0.5) | (0.1) | 3.4 | (3.6) | (0.2) |
| Total on a see-through basis | 2a | 39.1 | (7.3) | (0.8) | 31.0 | (22.8) | 8.2 |

With the exception of the German portfolio, all associates and joint ventures are held within the United Kingdom and Jersey.

1 The Group's average share during the period. As described in note 11b, following an open offer on 15 May, the Group's share in The Junction fell from 27.32% to 13.43%.

2 Great Northern is carried as a trading property in the balance sheet.

2 Segmental analysis: non-statutory information – see through basis continued

2b Contribution

| 2008 | Note | Gross rents £m | Property costs £m | Void costs £m | Net rents £m | Net interest £m | (Unaudited) | |
|---|------|----------------------|-------------------------|---------------------|--------------------|-----------------------|---|---|
| | | | | | | | Six months to 30 June 2008 Contribution £m | Year to 30 December 2008 Contribution £m |
| Mall (Group share: 24.2%) ¹ | | 22.0 | (5.2) | (0.8) | 16.0 | (10.6) | 5.4 | 8.7 |
| Junction (Group share: 27.3%) ¹ | | 7.2 | (1.2) | (0.2) | 5.8 | (4.2) | 1.6 | 1.2 |
| X-Leisure (Group share: 18.8%) ¹ | | 5.2 | (1.1) | (0.2) | 3.9 | (2.8) | 1.1 | 2.1 |
| FIX UK (Group share: 20.0%) ² | | 0.9 | (0.1) | – | 0.8 | (0.6) | 0.2 | (0.2) |
| Total associates | | 35.3 | (7.6) | (1.2) | 26.5 | (18.2) | 8.3 | 11.8 |
| German portfolio (Group share: 50%) ³ | | – | – | – | – | – | – | 2.4 |
| Xscape Braehead (Group share: 50%) ¹ | | 1.0 | (0.2) | (0.1) | 0.7 | (1.1) | (0.4) | (1.2) |
| MEN Arena (Group share: 30%) ¹ | | 0.8 | (0.2) | – | 0.6 | (0.5) | 0.1 | 0.5 |
| Total joint ventures | | 1.8 | (0.4) | (0.1) | 1.3 | (1.6) | (0.3) | 1.7 |
| Statutory information | | | | | | | | |
| German portfolio ³ | | 18.0 | (2.3) | – | 15.7 | (9.5) | 6.2 | 10.3 |
| FIX UK ² | | 1.7 | (0.3) | – | 1.4 | (1.2) | 0.2 | – |
| UK investment properties | | 0.6 | (0.1) | – | 0.5 | (2.4) | (1.9) | (2.9) |
| Total rental income investment property | | 20.3 | (2.7) | – | 17.6 | (13.1) | 4.5 | 7.4 |
| Great Northern ⁴ | | 3.3 | (0.4) | (0.3) | 2.6 | (1.9) | 0.7 | 1.1 |
| Total wholly-owned rental income | | 23.6 | (3.1) | (0.3) | 20.2 | (15.0) | 5.2 | 8.5 |
| Total | 2a | 60.7 | (11.1) | (1.6) | 48.0 | (34.8) | 13.2 | 22.0 |

With the exception of the German portfolio, all associates and joint ventures were held within the United Kingdom and Jersey.

¹ The Group's average share during the period. Following an open offer on 27 June 2008, the Group's share in The Mall fell from 24.24% to 16.72%.

² FIX UK was wholly owned until 6 March 2008, after which the Group's share was reduced to 20% and it was treated as an associate.

³ The German portfolio was wholly owned until 6 October 2008, after which the Group's share was reduced to 50% and it was treated as a joint venture.

⁴ Great Northern is carried as a trading property in the balance sheet.

3 Segmental analysis – statutory basis

3a Primary business segments

| 2009 | Note | Assets | | Earnings | | Total (Unaudited) Six months to 30 June 2009 £m |
|---|------|------------------------------------|---|------------------------------------|----------------|---|
| | | Property investment UK £m | Property investment Germany £m | Property management UK £m | SNO!zone £m | |
| Revenue from external sources | | 4.0 | – | 8.9 | 7.3 | 20.2 |
| Transactions with other segments | | 0.4 | – | 0.2 | – | 0.6 |
| Total segment revenue | | 4.4 | – | 9.1 | 7.3 | 20.8 |
| Cost of sales | 4 | (5.6) | – | – | (6.2) | (11.8) |
| Transactions with other segments | | (0.1) | – | (0.4) | (0.1) | (0.6) |
| Administrative costs | | (1.4) | (0.3) | (7.1) | – | (8.8) |
| Impairment of goodwill | 10 | – | – | (1.0) | – | (1.0) |
| Profit on sale of properties and investments | | 0.9 | – | – | – | 0.9 |
| Loss on revaluation of investment properties | | (4.1) | – | – | – | (4.1) |
| Segment result | | (5.9) | (0.3) | 0.6 | 1.0 | (4.6) |
| Share of loss in joint ventures and associates * | | (116.5) | (7.1) | – | – | (123.6) |
| Net finance costs | | (2.9) | 0.3 | – | – | (2.6) |
| (Loss)/profit before tax | | (125.3) | (7.1) | 0.6 | 1.0 | (130.8) |
| Segment assets | | 122.8 | 8.2 | 4.8 | 7.3 | 143.1 |
| Interest in joint ventures and associates | | | | | | 85.1 |
| Tax assets – current tax | | | | | | 2.0 |
| Tax assets – deferred tax | | | | | | 0.7 |
| Consolidated total assets | | | | | | 230.9 |
| Segment liabilities | | (31.2) | (1.2) | (4.1) | (5.0) | (41.5) |
| Interest bearing liabilities | | | | | | (119.1) |
| Tax liabilities | | | | | | (19.5) |
| Consolidated total liabilities | | | | | | (180.1) |
| Capital expenditure | | – | – | – | – | – |
| Depreciation | | – | – | 0.1 | 0.3 | 0.4 |
| Significant other non-cash expenses | | – | – | 0.1 | – | 0.1 |
| Aggregate investment in joint ventures and associates | | 56.7 | 28.4 | – | – | 85.1 |

* Including deemed disposal from The Junction open offer.

3 Segmental analysis – statutory basis continued

3a Primary business segments

| 2008 | Note | Assets | | Earnings | | Total | |
|---|------|------------------------------|-----------------------------------|------------------------------|----------------|--|--------------------------------|
| | | Property investment UK £m | Property investment Germany £m | Property management UK £m | SNO!zone £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
| Revenue from external sources | | 5.6 | 18.0 | 7.8 | 8.0 | 39.4 | 65.4 |
| Transactions with other segments | | 0.5 | – | 0.2 | – | 0.7 | 1.3 |
| Total segment revenue | | 6.1 | 18.0 | 8.0 | 8.0 | 40.1 | 66.7 |
| Cost of sales | 4 | (7.5) | (2.3) | – | (6.5) | (16.3) | (41.7) |
| Transactions with other segments | | (0.1) | – | (0.5) | (0.1) | (0.7) | (1.3) |
| Administrative costs* | | (1.0) | (0.4) | (13.2) | – | (14.6) | (23.1) |
| Impairment of goodwill | 10 | – | – | – | – | – | (8.0) |
| Loss on sale of properties and investments | | (11.5) | – | – | – | (11.5) | (6.5) |
| Loss on revaluation of investment properties | 9a | (1.3) | (24.2) | – | – | (25.5) | (31.7) |
| Segment result | | (15.3) | (8.9) | (5.7) | 1.4 | (28.5) | (45.6) |
| Share of loss in associates and joint ventures* | | (159.1) | – | – | – | (159.1) | (432.9) |
| Net finance costs | | (4.5) | (3.7) | (0.7) | – | (8.9) | (37.8) |
| (Loss)/profit before tax | | (178.9) | (12.6) | (6.4) | 1.4 | (196.5) | (516.3) |
| Segment assets | | 169.0 | 523.2 | 3.6 | 4.2 | 700.0 | 153.3 |
| Interest in joint ventures and associates | | | | | | 453.0 | 216.7 |
| Tax assets – current tax | | | | | | 1.6 | 1.6 |
| Tax assets – deferred tax | | | | | | – | 1.4 |
| Consolidated total assets | | | | | | 1,154.6 | 373.0 |
| Segment liabilities | | (19.8) | (21.1) | (58.7) | (5.6) | (105.2) | (58.5) |
| Interest bearing liabilities | | | | | | (515.5) | (112.5) |
| Tax liabilities | | | | | | (40.7) | (15.9) |
| Consolidated total liabilities | | | | | | (661.4) | (186.9) |
| Capital expenditure | | – | 0.2 | 0.1 | 0.1 | 0.4 | 1.0 |
| Depreciation | | – | – | 0.1 | 0.2 | 0.3 | 0.6 |
| Significant other non-cash expenses | | – | – | 0.3 | – | 0.3 | 1.1 |
| Aggregate investment in joint ventures and associates | | 453.0 | – | – | – | 453.0 | 216.7 |

* Including deemed disposal from The Mall open offer and related costs as appropriate.

Notes to the condensed financial statements continued

4 Cost of sales

| | Note | (Unaudited) Six months to 30 June 2009 Total £m | (Unaudited) Six months to 30 June 2008 Total £m | Year to 30 December 2008 Total £m |
|----------------------------------|--------|---|---|--|
| Property and void costs | | 0.6 | 3.4 | 4.8 |
| SNO!zone expenses | 2a | 6.2 | 6.5 | 13.4 |
| Impairment of trading properties | 2a, 9a | 5.0 | 6.4 | 23.5 |
| Total cost of sales | | 11.8 | 16.3 | 41.7 |

5 Finance costs

| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|---|--|--|-----------------------------------|
| Net interest payable on bank loans, overdrafts and swaps | 4.1 | 14.3 | 24.2 |
| Amortisation of loan issue costs | 0.2 | 0.3 | 0.7 |
| Unwinding of discounting of CAP awards | – | 0.5 | 0.7 |
| Share of loss attributable to minority interest classified as a liability | – | (0.9) | (0.3) |
| Other interest payable | 0.8 | 1.3 | 1.7 |
| (Gain)/loss in fair value of financial instruments – interest rate swaps | (1.0) | (5.8) | 12.7 |
| (Gain)/loss in fair value of financial instruments – forward contracts | (0.1) | – | 0.5 |
| Total finance costs | 4.0 | 9.7 | 40.2 |

6 Tax

6a Tax charge/(credit)

| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|--|--|--|-----------------------------------|
| Current tax charge/(credit) | | | |
| UK corporation tax – adjustments in respect of prior years | 3.2 | (0.1) | (1.8) |
| Foreign tax | – | 0.2 | 0.7 |
| Total current tax charge/(credit) | 3.2 | 0.1 | (1.1) |
| Deferred tax charge/(credit) | | | |
| Origination and reversal of temporary timing differences | 0.7 | 4.8 | (13.0) |
| Total deferred tax charge/(credit) | 0.7 | 4.8 | (13.0) |
| Total tax charge/(credit) | 3.9 | 4.9 | (14.1) |

6b Tax charge/(credit) reconciliation

| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|---|--|--|-----------------------------------|
| Loss before tax | (130.8) | (196.5) | (516.3) |
| Loss multiplied by the UK corporation tax rate of 28% | (36.6) | (55.0) | (144.6) |
| Non-allowable expenses and non-taxable items | (132.1) | 11.7 | (161.4) |
| Utilisation of tax losses | 5.9 | – | 14.7 |
| Tax on revaluation gains | 129.6 | – | 179.5 |
| Unrealised gains on investment property not taxable | 33.0 | 49.7 | 101.9 |
| Temporary timing differences | 0.9 | (1.4) | (2.4) |
| Prior year adjustments | 3.2 | (0.1) | (1.8) |
| Total tax charge/(credit) | 3.9 | 4.9 | (14.1) |

6 Tax continued

6c Deferred tax movements

| | Capital allowances £m | Other timing differences £m | (Unaudited) Six months to 30 June 2009 Total £m | (Unaudited) Six months to 30 June 2008 Total £m | Year ended 30 December 2008 Total £m |
|--|--------------------------|--------------------------------|---|---|---|
| UK | | | | | |
| As at the start of the period | 4.1 | (5.5) | (1.4) | 9.6 | 9.6 |
| Recognised in income | 0.2 | 0.5 | 0.7 | 6.8 | (11.0) |
| As at the end of the period | 4.3 | (5.0) | (0.7) | 16.4 | (1.4) |
| Germany | | | | | |
| As at the start of the period | – | – | – | 7.9 | 7.9 |
| Recognised in income to date of disposal | – | – | – | (2.0) | (2.1) |
| Recognised on disposal | – | – | – | – | (5.8) |
| As at the end of the period | – | – | – | 5.9 | – |
| Total deferred tax as at the end of the period | 4.3 | (5.0) | (0.7) | 22.3 | (1.4) |

6d Unused tax losses

| | (Unaudited) 30 June 2009 £m | (Unaudited) 30 June 2008 £m | 30 December 2008 £m |
|-------------------------|-----------------------------------|-----------------------------------|------------------------|
| United Kingdom | 115.8 | 42.5 | 94.7 |
| Overseas | 4.6 | 8.7 | 6.0 |
| Total unused tax losses | 120.4 | 51.2 | 100.7 |

A net deferred tax asset has been recognised in respect of £2.5 million (June 2008: £nil) of the unused tax losses. No deferred tax asset has been recognised for the remaining tax losses due to insufficient probability that future taxable profit will arise in the relevant loss-making companies, or for other reasons restricting the losses. The losses do not have an expiry date.

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. One specific exposure relates to the tax structuring of previous property disposals by the Group in 2004 and 2005. The tax treatment of similar transactions by another taxpayer was the subject of litigation, in which the Court of Appeal found against the taxpayer and a subsequent appeal to the House of Lords was denied. Following that outcome, the Group expects its tax liabilities in respect of these transactions to crystallise. Subsequent to the period end, the extent and timing of payment has been under discussion with the tax authorities and at the date of approval of the condensed financial statements the Group's expected tax liability in respect of these transactions is £19.5 million (including interest), which is covered by the current provision and is likely to include some form of deferred payment.

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 and that certain tax deductions and losses will be available following the restructuring, although the relevant computations have yet to be agreed.

7 Dividends

| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|--|--|--|-----------------------------------|
| Amounts recognised as distributions to equity holders in the period: | | | |
| Final dividend for the year to 30 December 2008 of nil p per share (2008: 17p per share) | – | 11.9 | 11.9 |
| Interim dividend for the year to 30 December 2008 of 5p per share | – | – | 3.5 |
| Proposed interim dividend for the year to 30 December 2009 of nil p per share (2008: 5p per share) | – | 15.4 | 15.4 |

8 Loss per share

The European Public Real Estate Association (“EPRA”) has issued recommended bases for the calculation of certain earnings per share information as shown in the following table:

| | Basic £m | Diluted £m | EPRA Diluted £m |
|--|----------------|----------------|-----------------------|
| Losses | | | |
| Loss for the period | (134.7) | (134.7) | (134.7) |
| Revaluation movements on investment properties and other investments | – | – | 128.2 |
| Loss on disposals of investment properties (net of tax) | – | – | 2.0 |
| Movement in fair value of financial instruments | – | – | (0.8) |
| Impairment of goodwill | – | – | 1.0 |
| Deferred tax charge | – | – | 0.7 |
| | (134.7) | (134.7) | (3.6) |
| Number of shares | | | |
| Share capital | 71.3 | 71.3 | 71.3 |
| Own shares held | (2.0) | (2.0) | (2.0) |
| | 69.3 | 69.3 | 69.3 |
| Loss per share (p) – for the six months to 30 June 2009 (unaudited) | (194)p | (194)p | (5)p |
| Loss per share (p) for the six months to 30 June 2008 (unaudited) | (286)p | (286)p | (29)p |
| Loss per share (p) for the year to 30 December 2008 | (715)p | (715)p | (77)p |

9 Property assets

9a Wholly-owned property assets

| Note | Freehold investment property assets £m | Leasehold investment property assets £m | Sub-total investment property assets £m | Long leasehold owner occupied building £m | Freehold trading property assets £m | Total property assets £m |
|---|---|--|--|--|--|-----------------------------|
| Cost or valuation | | | | | | |
| As at 30 December 2007 | 661.8 | 16.7 | 678.5 | 15.6 | 95.9 | 790.0 |
| Exchange adjustments | 27.2 | – | 27.2 | – | – | 27.2 |
| Additions | 0.2 | – | 0.2 | – | 0.4 | 0.6 |
| Disposals and transfers | (664.3) | 2.4 | (661.9) | – | – | (661.9) |
| Impairment of trading properties | – | – | – | – | (23.5) | (23.5) |
| Revaluation movement recognised in income | (24.7) | (4.2) | (28.9) | (2.8) | – | (31.7) |
| Revaluation movement recognised in equity | – | – | – | (2.4) | – | (2.4) |
| Head leases treated as finance leases | – | 0.2 | 0.2 | 0.4 | – | 0.6 |
| As at 30 December 2008 | 0.2 | 15.1 | 15.3 | 10.8 | 72.8 | 98.9 |
| Impairment of trading properties | 2a, 4 | – | – | – | (5.0) | (5.0) |
| Revaluation movement recognised in income | – | (3.0) | (3.0) | (1.1) | – | (4.1) |
| Head leases treated as finance leases | – | – | – | 0.4 | – | 0.4 |
| As at 30 June 2009 | 0.2 | 12.1 | 12.3 | 10.1 | 67.8 | 90.2 |

In addition to the wholly-owned properties shown above, the Group's property assets include its share in the investment properties held by its associates and joint ventures. External valuations at 30 June 2009 were carried out on £787.9 million (June 2008: £1,628.0 million) of these property assets. The valuations were carried out by independent qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors, Jones Lang LaSalle, Chartered Surveyors and King Sturge, Chartered Surveyors. These external valuers are not connected with the Group.

The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties. The valuer of the German portfolio has made reference in his report to Guidance Note 5 of those Standards noting that there had been a marked reduction in the volume of transactions in Germany, with activity below the levels of recent years, and hence greater volatility in the evidence generated by comparable transactions. In these market conditions, there was therefore a greater than usual degree of uncertainty in respect of the valuation figures quoted. Until the number and consistency of comparable transactions increases, this situation is likely to remain. Nevertheless, the valuation report was not qualified.

Directors' valuations at 30 June 2009 were carried out on £nil (June 2008: £1.0 million) of the Group's property assets. The properties held by FIX UK have not been valued as the Group's investment in FIX UK has been written down to £nil.

9 Property assets continued

9b Profit/(loss) on sale of properties and investments

| Note | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|--|--|--|-----------------------------------|
| Loss on part sale of FIX UK | – | (10.1) | (10.1) |
| Loss on part sale of German portfolio | – | – | (0.4) |
| Profit on sale of Cardiff joint venture | 17 | 0.5 | – |
| Other write-downs, impairments and release of provisions | | 0.4 | 4.0 |
| | | 0.9 | (6.5) |

10 Goodwill

| Note | (Unaudited) 30 June 2009 £m | (Unaudited) 30 June 2008 £m | 30 December 2008 £m |
|----------------------------|-----------------------------------|-----------------------------------|------------------------|
| At the start of the period | 4.2 | 12.2 | 12.2 |
| Provision for impairment | 2a, 3a | (1.0) | – |
| At the end of the period | | 3.2 | 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 I, 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 it might be impaired. An impairment review has been carried out at 30 June 2009 to test the recoverable amount of the goodwill asset based on its value in use.

Impairment is tested by discounting the forecast cash flows generated by the X-Leisure asset management contract, which is coterminous with the life of the Fund. The cash flows reflect the amendments to the contract resulting from the restructuring described in note 19, including the transfer of management responsibilities to X-Leisure Limited.

The forecast cash flows include the following assumptions:

- The initial expiry date of the X-Leisure Fund is 31 December 2014, with a 50% chance that the life of the Fund will be extended to 31 December 2021.
- Management fees receivable are in line with the asset management contract, including both a fixed element and a variable amount dependent on the growth in net operating income in the X-Leisure Fund.
- Management fees receivable, as well as both fixed and variable administration costs, are assumed to grow by 2.4% per annum beyond the five-year period modelled in the Group's forecasts.
- The rate used to discount the expected cash flows is 8.3% (December 2008: 8.3%).

If the termination date of the Fund were to be the initial expiry date of 31 December 2014, there would be an additional impairment of £0.8 million.

The impairment in the period arose because of the renegotiation of certain terms in the X-Leisure Limited asset management contract, which was finalised after the previous impairment review had taken place, notably the fixed element of the management fee and the expiry date of the X-Leisure Fund.

11 Investment in associates and joint ventures

11a Share of results

| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2007 £m |
|--|--|--|-----------------------------------|
| Share of results of associates | (111.1) | (127.8) | (368.4) |
| Dilution effect of The Mall rights issue | – | (26.2) | (26.2) |
| Dilution effect of The Junction rights issue | (2.9) | – | – |
| | (114.0) | (154.0) | (394.6) |
| Impairment of FIX UK | – | – | (8.6) |
| Share of results of joint ventures | (9.6) | (5.1) | (29.7) |
| | (123.6) | (159.1) | (432.9) |

11 Investment in associates and joint ventures continued

11b Investment in associates

| | Note | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2007 £m |
|--|------|--|--|-----------------------------------|
| At the start of the period | | 182.3 | 599.4 | 599.4 |
| Investment in The Junction | | 0.6 | – | – |
| Share of net assets in FIX UK transferred to associate | | – | 8.6 | 8.6 |
| Share of results of FIX UK | | – | – | (0.2) |
| Impairment of FIX UK | | – | – | (8.4) |
| Share of results of associates | 11d | (114.0) | (154.0) | (394.6) |
| Dividends and capital distributions received | | (6.7) | (9.6) | (22.5) |
| At the end of the period | | 62.2 | 444.4 | 182.3 |

The Group's investments in associates include The Mall LP, The Junction LP, X-Leisure LP and The FIX UK LP. Despite the fact that the Group holds less than 20% in The Mall LP, The Junction LP and X-Leisure LP, they are accounted for as associates as the Group has significant influence arising from its membership of the General Partner boards. The Group holds 20% of The FIX UK LP and also exercises significant influence through its representation on the General Partner board. The value of the Group's investment in FIX UK was written down to £nil in 2008.

On 15 May 2009, The Junction Fund completed a £63.6 million open offer. The Group took up £600,000 of its rights, which was less than its pro-rata share and as a consequence its percentage holding in the Fund fell from 27.32% to 13.43%.

C&R accounting policy adjustments were made in 2008 to correctly reflect the treatment of performance fees repayable by the Group to the funds. The results of The Mall LP were adjusted to reflect the Group's share of performance fees repayable at its percentage interest before the dilutive effects of the open offer and the results of The Mall LP, The Junction LP and X-Leisure LP were adjusted to ensure consistency of accounting in relation to the estimated repayments of performance fees.

11c Investment in joint ventures

| | Note | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2007 £m |
|--|------|--|--|-----------------------------------|
| At the start of the period | | 34.4 | 12.0 | 12.0 |
| Share of net assets in German portfolio transferred to joint venture | | – | – | 44.9 |
| Investment in joint ventures | | 2.1 | 1.7 | 8.5 |
| Net liabilities of Cardiff joint venture at date of disposal | | 0.5 | – | – |
| Dividends and capital distributions received | | (0.1) | – | (2.3) |
| Share of results | 11e | (9.6) | (5.1) | (29.7) |
| Foreign exchange differences | | (4.4) | – | 1.0 |
| At the end of the period | | 22.9 | 8.6 | 34.4 |

The Group's investments in joint ventures include its share in the German portfolio and its investments in Xscape Braehead Partnership, Manchester Arena Complex Limited Partnership and The Auchinlea Partnership. The investment in Capital Retail Park Partnership was sold on 7 May 2009 as described in note 17.

The Auchinlea Partnership held the Group's interest in Glasgow Fort. Since the sale of this interest in 2004 the Group has received a total of £8.3 million further profit from its remaining interest. Further profits were potentially receivable, largely dependent on planning consent being obtained for future phases of the development and the letting of units at above target rents. The Group has also given certain rental guarantees for a five-year period and has made provision for the amounts which are expected to be paid in respect of these. The estimate of the Group's share of the fair value of the right to receive these future profits at 30 June 2009 is a financial asset of £nil (2008: £0.1 million). This reflects the expectation that no further amounts will be received because it is unlikely that the relevant development will take place in the necessary timescale.

Notes to the condensed financial statements continued

11 Investment in associates and joint ventures continued

11d Analysis of investment in associates

| Note | The Mall LP £m | The Junction LP £m | X-Leisure LP £m | (Unaudited) Six months to 30 June 2009 Total £m | (Unaudited) Six months to 30 June 2008 Total £m | Year to 30 December 2008 Total £m | |
|--|----------------------|--------------------------|-----------------------|---|---|--|---------|
| Income statement (100%) | | | | | | | |
| Revenue | 77.6 | 22.7 | 25.4 | 125.7 | 148.1 | 274.8 | |
| Property expenses | (18.1) | (0.8) | (3.6) | (22.5) | (22.6) | (43.8) | |
| Management expenses | (4.6) | (2.5) | (3.3) | (10.4) | (14.0) | (27.2) | |
| Net rents | 54.9 | 19.4 | 18.5 | 92.8 | 111.5 | 203.8 | |
| Net interest payable | (33.8) | (16.6) | (13.5) | (63.9) | (76.8) | (146.4) | |
| Contribution | 21.1 | 2.8 | 5.0 | 28.9 | 34.7 | 57.4 | |
| Performance fees | – | (0.9) | – | (0.9) | – | 12.4 | |
| C&R accounting policy adjustment | – | – | – | – | 5.0 | – | |
| Loss on revaluation of investment properties | (350.6) | (138.2) | (95.9) | (584.7) | (642.3) | (1,520.5) | |
| Loss on sale of investment properties | – | (1.2) | (18.4) | (19.6) | (0.9) | (141.2) | |
| Provision for onerous contract | – | – | – | – | – | (10.3) | |
| Loan renegotiation costs | – | (3.5) | – | (3.5) | – | – | |
| Fair value of interest rate swaps | 10.1 | 2.5 | 2.8 | 15.4 | 73.0 | (155.1) | |
| Loss before tax | (319.4) | (138.5) | (106.5) | (564.4) | (530.5) | (1,757.3) | |
| Tax | – | – | – | – | – | (0.6) | |
| Loss after tax | (319.4) | (138.5) | (106.5) | (564.4) | (530.5) | (1,757.9) | |
| Balance sheet (100%) | | | | | | | |
| Investment property | 1,463.0 | 568.8 | 522.6 | 2,554.4 | 4,489.7 | 3,231.9 | |
| Property held for sale | – | – | – | – | 298.9 | – | |
| Current assets | 212.5 | 48.9 | 52.7 | 314.1 | 401.5 | 347.0 | |
| Current liabilities | (277.7) | (40.5) | (126.5) | (444.7) | (219.5) | (429.2) | |
| Non-current liabilities | (1,242.8) | (440.8) | (354.3) | (2,037.9) | (2,725.3) | (2,231.9) | |
| Net assets (100%) | 155.0 | 136.4 | 94.5 | 385.9 | 2,245.3 | 917.8 | |
| Group interest at the end of the period | 16.72% | 13.43% | 19.37% | | | | |
| Group interest at the start of the period | 16.72% | 27.32% | 19.37% | | | | |
| Group average interest during the period | 16.72% | 23.79% | 19.37% | | | | |
| Income statement (Group share) | | | | | | | |
| Revenue | 2b | 13.0 | 5.2 | 4.9 | 23.1 | 35.3 | 59.6 |
| Net rents | 2b | 9.2 | 4.4 | 3.6 | 17.2 | 26.5 | 44.4 |
| Net interest payable | 2b | (5.7) | (3.8) | (2.6) | (12.1) | (18.2) | (32.4) |
| Contribution | 2b | 3.5 | 0.6 | 1.0 | 5.1 | 8.3 | 12.0 |
| Performance fees | – | – | – | – | – | – | 2.4 |
| C&R accounting policy adjustment | – | – | – | – | – | 1.0 | – |
| Deemed disposal | – | (2.9) | – | – | (2.9) | (26.2) | (26.2) |
| Loss on revaluation of investment properties | (58.6) | (36.2) | (18.6) | (113.4) | (154.4) | (323.6) | |
| Loss on sale of investment properties | – | (0.2) | (3.5) | (3.7) | (0.3) | (29.6) | |
| Provision for onerous contract | – | – | – | – | – | (2.0) | |
| Loan renegotiation costs | – | (0.5) | – | (0.5) | – | – | |
| Fair value of interest rate swaps | 1.7 | (0.8) | 0.5 | 1.4 | 17.6 | (27.5) | |
| Loss before tax | 11b | (53.4) | (40.0) | (20.6) | (114.0) | (154.0) | (394.5) |
| Tax | – | – | – | – | – | (0.1) | |
| Loss after tax | (53.4) | (40.0) | (20.6) | (114.0) | (154.0) | (394.6) | |
| Balance sheet (Group share) | | | | | | | |
| Investment property | 244.6 | 76.4 | 101.2 | 422.2 | 889.0 | 634.9 | |
| Property held for sale | – | – | – | – | 50.0 | – | |
| Current assets | 35.5 | 6.6 | 10.2 | 52.4 | 78.9 | 65.7 | |
| Current liabilities | (46.4) | (5.5) | (24.5) | (76.4) | (43.0) | (79.9) | |
| Non-current liabilities | (207.8) | (59.2) | (68.6) | (335.6) | (533.9) | (439.6) | |
| Associate net assets | 25.9 | 18.3 | 18.3 | 62.5 | 441.0 | 181.1 | |
| C&R accounting policy adjustment | (0.3) | – | – | (0.3) | 3.4 | 1.2 | |
| Net assets (Group share) | 25.6 | 18.3 | 18.3 | 62.2 | 444.4 | 182.3 | |

11 Investment in associates and joint ventures continued

11e Analysis of investment in joint ventures

| Note | German portfolio £m | Others £m | (Unaudited) Six months to 30 June 2009 Total £m | (Unaudited) Six months to 30 June 2008 Total £m | Year to 30 December 2008 Total £m | |
|---|-----------------------------|--------------|---|---|--|---------|
| Income statement (100%) | | | | | | |
| | 20.0 | 5.1 | 25.1 | 4.5 | 19.7 | |
| Revenue | (1.7) | (0.9) | (2.6) | (0.9) | (2.7) | |
| Property expenses | (0.6) | (0.2) | (0.8) | (0.2) | (0.7) | |
| Management expenses | 17.7 | 4.0 | 21.7 | 3.4 | 16.3 | |
| Net rents | (11.0) | (3.9) | (14.9) | (3.6) | (12.4) | |
| Net interest payable | 6.7 | 0.1 | 6.8 | (0.2) | 3.9 | |
| Contribution | (16.3) | (7.4) | (23.7) | (12.8) | (41.4) | |
| Loss on revaluation of investment properties ² | – | (0.1) | (0.1) | – | (12.5) | |
| Loss on sale of investment properties and investments | – | (0.2) | (0.2) | (0.3) | (0.2) | |
| Income and fair value movements on financial assets | (3.7) | 0.3 | (3.4) | 2.1 | (15.3) | |
| Loss on fair value of interest rate swaps | (13.3) | (7.3) | (20.6) | (11.2) | (65.5) | |
| Loss before tax | (1.0) | – | (1.0) | – | 1.6 | |
| Tax | (14.3) | (7.3) | (21.6) | (11.2) | (63.9) | |
| Loss after tax | Balance sheet (100%) | | | | | |
| Investment property | 509.0 | 98.1 | 607.1 | 171.8 | 738.1 | |
| Current assets | 16.2 | 21.3 | 37.5 | 29.3 | 47.0 | |
| Other financial assets | – | – | – | 0.2 | 0.2 | |
| Current liabilities | (28.8) | (18.3) | (47.1) | (75.3) | (62.2) | |
| Non-current liabilities | (439.6) | (111.2) | (550.8) | (102.2) | (651.1) | |
| Net assets (100%) | 56.8 | (10.1) | 46.7 | 23.8 | 72.0 | |
| Group interest at the end of the period | 50% ¹ | 30%-50% | | | | |
| Group interest at the start of the period | 50% ¹ | 30%-50% | | | | |
| Group average interest during the period | 50% ¹ | 30%-50% | | | | |
| Income statement (Group share) | | | | | | |
| Revenue | 2b | 10.0 | 2.0 | 12.0 | 1.8 | 8.7 |
| Net rents | 2b | 8.9 | 1.5 | 10.4 | 1.3 | 7.2 |
| Net interest payable | 2b | (5.5) | (1.6) | (7.1) | (1.6) | (5.5) |
| Contribution | 2b | 3.4 | (0.1) | 3.3 | (0.3) | 1.7 |
| Loss on revaluation of investment properties ² | | (8.2) | (2.5) | (10.7) | (5.6) | (18.6) |
| Loss on sale of investment properties and investments | | – | – | – | – | (6.2) |
| Income and movement in fair value of financial assets | | – | – | – | (0.1) | (0.1) |
| Loss on fair value of interest rate swaps | | (1.8) | 0.1 | (1.7) | 0.9 | (7.2) |
| Loss before tax | | (6.6) | (2.5) | (9.1) | (5.1) | (30.4) |
| Tax | | (0.5) | – | (0.5) | – | 0.7 |
| Loss after tax | 11c | (7.1) | (2.5) | (9.6) | (5.1) | (29.7) |
| Balance sheet (Group share) | | | | | | |
| Investment property | | 254.5 | 38.8 | 293.3 | 73.2 | 357.6 |
| Current assets | | 8.1 | 9.3 | 17.4 | 13.4 | 22.3 |
| Other financial assets | | – | – | – | 0.1 | 0.1 |
| Current liabilities | | (14.4) | (7.5) | (21.9) | (36.6) | (29.5) |
| Non-current liabilities | | (219.8) | (46.1) | (265.9) | (41.5) | (316.0) |
| Net assets (Group share) | | 28.4 | (5.5) | 22.9 | 8.6 | 34.4 |

¹ After minority interests included in liabilities.

² The settlement of the outstanding claim in relation to the Braehead joint venture, which was reimbursed for the costs of certain repair works to the cinema ceiling and other loss of income, is included in loss on revaluation of investment properties under other joint ventures in the 30 June 2009 and 30 December 2008 figures.

Notes to the condensed financial statements continued

12 Current payables

| | (Unaudited) 30 June 2009 £m | (Unaudited) 30 June 2008 £m | 30 December 2008 £m |
|--|-----------------------------------|-----------------------------------|------------------------|
| Trade payables | 1.2 | 2.1 | 1.0 |
| Accruals and deferred income | 10.4 | 22.6 | 10.9 |
| Payable to associates | – | 41.0 | 15.3 |
| Financial liabilities carried at fair value through profit or loss – interest rate swaps | 6.6 | 4.7 | 7.6 |
| Financial liabilities carried at fair value through profit or loss – forward contracts | – | – | 14.2 |
| Other payables | 5.5 | 11.9 | 5.9 |
| Other taxation and social security | 0.7 | 8.2 | 0.8 |
| | 24.4 | 90.5 | 55.7 |

13 Reserves

| | Share premium account £m | Revaluation reserve £m | Other reserves £m | Capital redemption reserve £m | Own shares held £m | Retained earnings £m | Total £m |
|---|-----------------------------------|------------------------------|-------------------------|--|-----------------------------|----------------------------|-------------|
| As at 30 December 2007 | 219.7 | 2.4 | 10.9 | 4.4 | (8.7) | 467.2 | 695.9 |
| Shares issued at premium | 0.8 | – | – | – | – | – | 0.8 |
| Revaluation of owner-occupied property | – | (2.4) | – | – | – | – | (2.4) |
| Exchange differences | – | – | 1.9 | – | – | – | 1.9 |
| Amortisation of IFRS 1 reserve | – | – | (0.1) | – | – | – | (0.1) |
| Other transfers between reserves | – | – | 1.1 | – | – | (1.1) | – |
| Amortisation and vesting of own shares | – | – | – | – | (0.3) | 0.3 | – |
| Purchase of own shares | – | – | – | – | (0.7) | – | (0.7) |
| Credit in respect of share-based payments | – | – | – | – | – | 1.2 | 1.2 |
| Dividends paid | – | – | – | – | – | (15.4) | (15.4) |
| Loss for the year | – | – | – | – | – | (502.2) | (502.2) |
| As at 30 December 2008 | 220.5 | – | 13.8 | 4.4 | (9.7) | (50.0) | 179.0 |
| Exchange differences | – | – | (0.8) | – | – | – | (0.8) |
| Ineffective portion of hedge | – | – | 0.2 | – | – | (0.2) | – |
| Credit in respect of share-based payments | – | – | – | – | – | 0.2 | 0.2 |
| Loss for the period | – | – | – | – | – | (134.7) | (134.7) |
| As at 30 June 2009 | 220.5 | – | 13.2 | 4.4 | (9.7) | (184.7) | 43.7 |

14 Reconciliation of net cash from operations

| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|---|--|--|-----------------------------------|
| Loss on ordinary activities before financing | (128.2) | (187.6) | (478.5) |
| Adjusted for: | | | |
| Share of loss in joint ventures and associates | 123.6 | 159.1 | 432.9 |
| Loss on revaluation of investment properties | 4.1 | 25.5 | 31.7 |
| (Profit)/loss on sale of properties and investments | (0.5) | 11.5 | 6.5 |
| Impairment of goodwill | 1.0 | – | 8.0 |
| Impairment of trading property | 5.0 | 6.4 | 23.5 |
| Depreciation of other fixed assets | 0.3 | 0.3 | 0.6 |
| Decrease in receivables | 7.4 | 3.2 | 2.7 |
| Decrease in payables | (11.8) | (16.3) | (52.1) |
| Non-cash movement relating to share-based payments | 0.2 | 1.1 | 1.2 |
| Net cash generated from operations | 1.1 | 3.2 | (23.5) |

15 Net assets per share

EPRA has issued recommended bases for the calculation of certain net asset per share information as shown in the following table:

| | Net assets £m | (Unaudited) 30 June 2009 Number of shares (m) | Net assets per share (£) | (Unaudited) 30 June 2008 Net assets per share (£) | 30 December 2008 Net assets per share (£) |
|---|------------------|--|-----------------------------|--|---|
| Basic | 50.8 | 71.3 | 0.71 | 6.92 | 2.61 |
| Own shares held | – | (2.0) | | | |
| Fair value of fixed rate loans (net of tax) | (1.6) | | | | |
| Triple net diluted net assets per share | 49.2 | 69.3 | 0.71 | 7.06 | 2.67 |
| Exclude fair value of fixed rate loans (net of tax) | 1.6 | | | | |
| Exclude fair value of derivatives not designated as financial instruments (net of tax) | 22.7 | | | | |
| Exclude deferred tax on unrealised gains and capital allowances | 4.3 | | | | |
| EPRA diluted net assets per share | 77.8 | 69.3 | 1.12 | 6.86 | 3.25 |

16 Return on equity

| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m |
|---|--|--|-----------------------------------|
| Total recognised income and expense attributable to equity shareholders | (135.5) | (198.6) | (502.7) |
| Opening equity shareholders' funds | 186.1 | 703.0 | 703.0 |
| Return on equity | (72.8)% | (28.3)% | (71.5)% |

17 Disposal – Capital Retail Park Partnership

On 7 May 2009 the Group sold its wholly-owned subsidiary, Capital & Regional Cardiff (Jersey) Limited, which held the 50% interest in Capital Retail Park Partnership. The net liabilities at the date of disposal and at 30 December 2008 were as follows:

| | Note | 7 May 2009 £m | 30 December 2008 £m |
|--|------|------------------|------------------------|
| Investment property | | 15.1 | 15.8 |
| Current assets | | 4.3 | 5.0 |
| Bank balance and cash | | 0.1 | 0.3 |
| Current liabilities | | (3.5) | (6.7) |
| Non-current liabilities | | (16.5) | (15.4) |
| | | (0.5) | (1.0) |
| Write-off of receivable from joint venture | | 1.2 | |
| Gain on disposal | 9b | 0.5 | |
| Total cash consideration | | 1.2 | |
| Net inflow arising on disposal: | | | |
| Cash consideration | | 1.2 | |
| Cash and cash equivalents disposed of | | (0.1) | |
| | | 1.1 | |

18 Contingent liabilities

The Group has given certain guarantees relating to interest shortfalls and cost overruns in connection with the joint venture at Manchester Arena. The fair value of these guarantees is £0.1 million (June 2008: £0.3 million). The Group no longer has any guarantee in respect of the Cardiff joint venture following its sale during the period.

19 Events after the balance sheet date

Capital raise

On 20 August 2009, the Company will announce its intention to raise £69.2 million (gross) in new equity capital through a firm placing to new cornerstone investor Parkdev, and an underwritten firm placing and open offer to ordinary shareholders. The net proceeds of the Capital Raising are expected to be £62.8 million after an estimated £6.4 million of costs and will be used to pay down the debt on the Group's revolving credit facility and meet other working capital requirements.

Refinancings

On 18 August 2009, the Group agreed a refinancing of the bank debt on its Hemel Hempstead leasehold investment property. £0.9 million of the loan was paid down on that date together with a loan arrangement fee of £0.1 million. An additional £1.0 million pay down will be required in November 2009, with further payments of £0.5 million after 12, 18 and 24 months. The facility was extended to September 2012 and the margin was increased to LIBOR +3%, falling to LIBOR +2.75% in November 2009 and LIBOR +2.5% from August 2010. It was also agreed that the LTV covenant would not be tested for the first 18 months following the date of the agreement, then 75% for the following year and 70% after that.

On 20 August 2009, the Group agreed a refinancing of the bank debt on its Great Northern trading property, conditional on the Company raising at least £40 million of new equity in the Capital Raising. The loan arrangement fee was £1.3 million and the facility was extended to October 2013. The margin was increased to LIBOR +2% and the LTV covenant was set at 100% until December 2012, falling to 90% until June 2013 and 80% thereafter.

On 20 August 2009, the Group agreed a refinancing of the bank debt on its 10 Lower Grosvenor Place owner-occupied property, conditional on the Company raising at least £40 million of new equity in the Capital Raising. The loan arrangement fee was £0.2 million and the facility was extended to March 2011. The margin was increased to LIBOR +3%.

On 20 August 2009, the Group agreed a refinancing of the bank debt on its revolving credit facility, conditional on the Company raising at least £40 million of new equity in the Capital Raising. The loan arrangement fee was £1.3 million and the facility was extended to September 2013. The limit on the facility was also effectively reduced to £58 million.

In addition to the arrangement costs noted above, the Group expects to incur an estimated £1.0 million in legal and other fees in connection with these refinancings.

19 Events after the balance sheet date continued

Share premium account

The Company has sought permission from the Court to reduce its share premium account, which was approved on 19 August 2009 subject to the creation of a special reserve for any balance remaining after extinguishing the deficit on retained earnings. The reserve will be released when suitable provision has been made for any creditors who do not consent to the reduction.

X-Leisure Fund

On 29 July 2009, the X-Leisure Fund completed a £50 million open offer. The proceeds were largely applied to pay down debt as part of a refinancing package agreed with the Fund's lending banks. Units were issued at a price of between 9.8p and 10p, which represented a discount of around 70% to the June unit price net of the interest rate swap mark-to-market adjustment of 7.3p. The June unit price before adjusting for the mark-to-market was 40.3p. The Group contributed £4 million out of its pro-rata entitlement of approximately £9.7 million, which would have caused a fall in the Group's holding from 19.37% to 11.97% and resulted in a deemed disposal of £5.0 million at 30 June 2009 figures.

A number of other amendments were made to the structure and governance of the Fund. The expiry date was brought forward to 31 December 2014, with provision for a possible extension to 31 December 2021. X-Leisure Limited, a new 50:50 joint venture between CRPM and Hermes, was appointed as fund and property manager in place of Hermes as fund manager and CRPM as property manager. The staff from CRPM's X-Leisure division transferred to X-Leisure Limited with effect from 18 August 2009.

The Fund's banking arrangements have also been amended, extending the life of the core banking facility to 31 March 2014, increasing the loan-to-value ratio covenant to 90% until 31 December 2010 after which it will fall in tiers to 65% from 1 July 2013, and setting the interest cover ratio at 130% until 31 March 2012 after which it will rise in tiers to 150% from 1 April 2013.

20 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, all of which occurred at normal market rates, were as follows:

Capital & Regional plc

| | Interest receivable from/(payable to) related parties | | | Amounts owed by/(to) related parties | | |
|---|---|--|-----------------------------------|--------------------------------------|-----------------------------------|------------------------|
| | (Unaudited) Six months to 30 June 2009 £m | (Unaudited) Six months to 30 June 2008 £m | Year to 30 December 2008 £m | (Unaudited) 30 June 2009 £m | (Unaudited) 30 June 2008 £m | 30 December 2008 £m |
| Joint ventures | | | | | | |
| Xscape Braehead Partnership | 0.3 | – | 0.6 | 8.3 | – | 12.1 |
| Capital & Regional (Europe LP) Limited | 0.1 | – | 0.1 | 3.0 | – | 3.3 |
| Capital & Regional (Europe LP 2) Limited | – | – | – | 1.6 | – | 1.8 |
| Capital & Regional (Europe LP 3) Limited | 0.2 | – | 0.1 | 7.4 | – | 8.8 |
| Capital & Regional (Europe LP 5) Limited | – | – | – | 0.7 | – | 1.1 |
| Capital & Regional (Europe LP 6) Limited | – | – | – | 1.7 | – | 1.9 |

Notes to the condensed financial statements continued

20 Related party transactions continued

Capital & Regional Property Management Limited

| | Management and performance fees receivable from/(payable to) related parties | | | Amounts owed by/(to) related parties | | |
|-----------------------------|---|------------------------------|------------------|--------------------------------------|------------------------------|------------------|
| | (Unaudited) Six months to | (Unaudited) Six months to | Year to | (Unaudited) Six months to | (Unaudited) Six months to | Year to |
| | 30 June 2009 | 30 June 2008 | 30 December 2008 | 30 June 2009 | 30 June 2008 | 30 December 2008 |
| | £m | £m | £m | £m | £m | £m |
| Associates | | | | | | |
| The Mall LP | 4.8 | 6.5 | 11.6 | 0.8 | (34.1) | (3.8) |
| The Junction LP | 1.5 | 2.4 | 4.2 | 0.3 | 0.5 | 0.4 |
| X-Leisure LP | 2.4 | (0.7) | (3.9) | 0.6 | (1.1) | (9.3) |
| The FIX UK LP | – | – | 0.1 | – | – | 0.5 |
| Joint ventures | | | | | | |
| German portfolio | 0.2 | – | 0.1 | – | – | – |
| Xscape Braehead Partnership | 0.1 | – | 0.2 | 0.1 | – | 0.1 |

SNO!zone Limited and SNO!zone (Braehead) Limited

| | Rents payable to related parties | | | Amounts owed by/(to) related parties | | |
|----------------------------------|----------------------------------|------------------------------|------------------|--------------------------------------|------------------------------|------------------|
| | (Unaudited) Six months to | (Unaudited) Six months to | Year to | (Unaudited) Six months to | (Unaudited) Six months to | Year to |
| | 30 June 2009 | 30 June 2008 | 30 December 2008 | 30 June 2009 | 30 June 2008 | 30 December 2008 |
| | £m | £m | £m | £m | £m | £m |
| Associates | | | | | | |
| Xscape Milton Keynes Partnership | 0.3 | 0.3 | 0.7 | – | – | – |
| Xscape Castleford Partnership | 0.4 | 0.4 | 0.7 | – | – | – |
| Joint ventures | | | | | | |
| Xscape Braehead Partnership | 0.3 | 0.4 | 0.7 | (2.1) | – | (2.2) |

All rents payable by SNO!zone companies are due to the relevant Xscape Partnerships, which in the case of SNO!zone Limited (operator of the ski slopes at Milton Keynes and Castleford) are wholly-owned by X-Leisure LP.

During 2009, the Group has purchased IT and communication equipment from Redstone plc and Sage plc, on normal commercial terms. Alan Coppin is Executive Chairman of Redstone plc and Paul Stobart is a director of Sage plc.

Independent review report to Capital & Regional plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of recognised income and expense, the reconciliation of movement in equity shareholders' funds, the condensed consolidated cash flow statement and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Emphasis of matter – going concern

In arriving at our review conclusion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the condensed set of financial statements concerning the Group's ability to continue as a going concern. The Group is at risk of breaching the covenants on certain of its borrowing facilities and is dependent on raising sufficient additional equity capital in order to secure renegotiated bank facilities and provide the working capital required to ensure the Group can meet its liabilities as they fall due. The planned raising of additional equity capital is subject to a shareholder vote and if shareholders do not vote in favour of the various resolutions required for it to proceed, the Group would need to obtain further covenant waivers beyond 30 September 2009 to provide time to renegotiate the terms of the Group's existing credit facilities and potentially dispose of some of its assets to meet the lending banks' requirements. These and the other conditions explained in note 1 to the condensed set of financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The condensed set of financial statements does not include the adjustments that would result if the Group was unable to continue as a going concern.

Deloitte LLP

Chartered Accountants and Statutory Auditors

20 August 2009

London, UK

Portfolio information

Portfolio under management at fair value¹

| | 30 June 2009 £m | 30 June 2008 £m | 30 December 2008 £m |
|--|--------------------|--------------------|------------------------|
| Investment and trading properties ² | 81 | 612 | 88 |
| Associates | 2,469 | 4,520 | 3,147 |
| Joint ventures | 612 | 178 | 750 |
| Total | 3,162 | 5,310 | 3,985 |

1 Excluding adjustments for tenant incentives and head leases treated as finance leases.

2 Trading properties are shown at the lower of cost and net realisable value.

Fund portfolio information (100% figures)

As at 30 June 2009

| | The Mall | The Junction | X-Leisure | German Portfolio |
|--|-------------|--------------|-------------|------------------|
| Physical data | | | | |
| Number of core properties | 21 | 11 | 18 | 50 |
| Number of lettable units | 2,261 | 188 | 337 | 193 |
| Lettable space (sq ft – '000s) | 7,571 | 2,811 | 3,406 | 5,081 |
| Valuation data | | | | |
| Properties at market value (£m)* | 1,355 | 590 | 525 | 509 |
| Revaluation in the year (£m)* | (351) | (138) | (96) | (16) |
| Initial yield (%) | 8.25% | 7.35% | 7.99% | 6.73% |
| Equivalent yield (%) | 9.66% | 8.66% | 9.04% | n/a |
| Gearing return (%) | (59.26)% | (61.10)% | (49.18)% | (11.83)% |
| Property level return (%) | (17.65)% | (16.31)% | (14.00)% | (1.62)% |
| Reversionary (%) | 21.3% | 6.8% | 1.1% | n/a |
| Loan to value ratio (%) | 80.5% | 75.4% | 77.1% | 80.9% |
| Lease data | | | | |
| | Years | Years | Years | Years |
| Average lease length to break | 9.48 | 13.08 | 15.60 | 7.25 |
| Average lease length to expiry | 9.90 | 12.51 | 16.61 | 7.25 |
| Passing rent of leases expiring in: | | | | |
| | £m | £m | £m | £m |
| 2009 | 10.02 | 0.14 | 0.72 | 0.85 |
| 2010 | 7.29 | 0.01 | 0.62 | 1.63 |
| 2011-2013 | 33.57 | 1.66 | 0.88 | 10.95 |
| ERV of leases expiring in: | | | | |
| 2009 | 12.29 | 0.38 | 0.84 | n/a |
| 2010 | 10.33 | 0.26 | 0.72 | n/a |
| 2011-2013 | 35.67 | 2.00 | 0.87 | n/a |
| Passing rent subject to review in: | | | | |
| 2009 | 20.87 | 9.23 | 2.87 | n/a |
| 2010 | 20.33 | 10.17 | 7.25 | n/a |
| 2011-2013 | 33.85 | 23.57 | 16.98 | n/a |
| ERV of passing rent subject to review in: | | | | |
| 2009 | 20.64 | 11.18 | 2.95 | n/a |
| 2010 | 22.19 | 10.88 | 7.34 | n/a |
| 2011-2013 | 36.86 | 24.50 | 17.36 | n/a |
| Rental data | | | | |
| Passing rent (£m) | 141.41 | 45.38 | 45.74 | 40.50 |
| Estimated rental value (£m per annum) | 171.49 | 53.37 | 49.34 | n/a |
| Rental increase (ERV) % | (1.63)% | (1.20)% | (1.90)% | n/a |
| Vacancy rate (%) | 5.74% | 8.88% | 6.03% | 1.90% |
| Like-for-like net rental income (100%) | | | | |
| Current year net rental income | | | | |
| | £m | £m | £m | £m |
| Properties owned throughout 2008-2009 | 52.4 | 23.1 | 20.0 | 20.2 |
| Disposals | (0.2) | – | 2.0 | – |
| Total net rental income | 52.2 | 23.1 | 22.0 | 20.2 |
| Prior year net rental income | | | | |
| Properties owned throughout 2008-2009 | 62.2 | 22.7 | 19.9 | 20.0 |
| Disposals | 8.8 | 3.7 | 3.5 | – |
| Total net rental income | 71.0 | 26.4 | 23.4 | 20.0 |
| Other data | | | | |
| Unit price (£1.00 at inception) | £0.2377 | £0.2368 | £0.4030 | n/a |
| Group share | 16.72% | 13.43% | 19.37% | 48.79% |

* Excluding adjustments to property valuations for tenant incentives and head leases treated as finance leases.

Glossary of terms

Capital allowances deferred tax provision is the full provision made in accordance with IAS 12 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 adjusted fully diluted NAV per share.

CRPM is Capital & Regional Property Management Limited, a subsidiary of Capital & Regional plc, which earns the management and performance fees arising from certain of the Group's associates and joint ventures.

Contribution is the Group's share of net rents less net interest arising from its joint ventures, associates and wholly-owned entities, including unhedged foreign exchange movements.

EPRA adjusted fully diluted NAV per share includes the effect of those shares potentially issuable under employee share options and excludes own shares held. Any unrealised gains and capital allowances deferred tax provisions, surplus on the fair value of borrowings net of tax and surplus on the fair value of trading properties are added back.

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

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 unit or property.

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

Fixed management expenses are the day-to-day running costs of the Group, including salaries and office expenses.

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

Initial yield is the annualised net rent 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 trading properties), investments in joint ventures and associates, other investments and net current assets.

Like for like (Lfl) figures exclude the impact of property purchases and sales on year to year comparatives.

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 or internal valuers). In accordance with usual practice, the Group's 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 interest is the Group's share, on a see through basis, of the interest payable less interest receivable of the Group, its associates and joint ventures.

Net rents are the Group'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.

Nominal 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 (as determined by the Group's external valuers). In accordance with usual practice, they assume rent received annually in arrears on gross values including prospective purchasers' cost.

Off balance sheet debt is the Group's share of debt included under investment in associates and investment in joint ventures on the consolidated balance sheet.

Passing rent is gross rental income excluding the effects of tenant incentives.

Property under management (PUM) is the valuation of properties for which CRPM is the asset manager, plus the German portfolio.

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 Contribution plus management fees and SNO!zone income, less SNO!zone expenses and fixed management expenses and excludes the impact of variable overheads, revaluation of investment properties, deemed disposals, profit/loss on disposals, impairment of trading properties, impairment of goodwill, gain/loss on financial instruments and other non-recurring items. This is based on a see-through income statement and is not a measure defined by IFRS, so may not be computed in a manner consistent with similar measures presented by other companies.

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, to which the initial yield will rise once the rent reaches the estimated rental value.

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

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

SIC 15 “Operating lease – incentives” debtors are the values of lease incentives given to tenants, which under accounting rules are deducted from property valuation and shown as debtors. The incentive is amortised through the income statement.

Total return is the Group’s total recognised income for the year as set out in the Consolidated Statement of Recognised Income and Expense expressed as a percentage of opening equity shareholders’ funds.

Total shareholder return is the movement in price per share plus dividends per share.

Triple net fully diluted NAV per share includes the dilutive effect of share options and adjusts all items to market value, including trading properties and fixed rate debt.

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, CEO share matching scheme, COIP, SAYE and CAP which is spread over the performance period.

Wholly owned represents property assets in which the Group has a 100% interest.

Shareholder information

2009 financial calendar

Interim management statement
2009 annual results

12 November 2009
March/April 2010

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