Capital & Regional plc

Capital & Regional plc Annual Report 2005

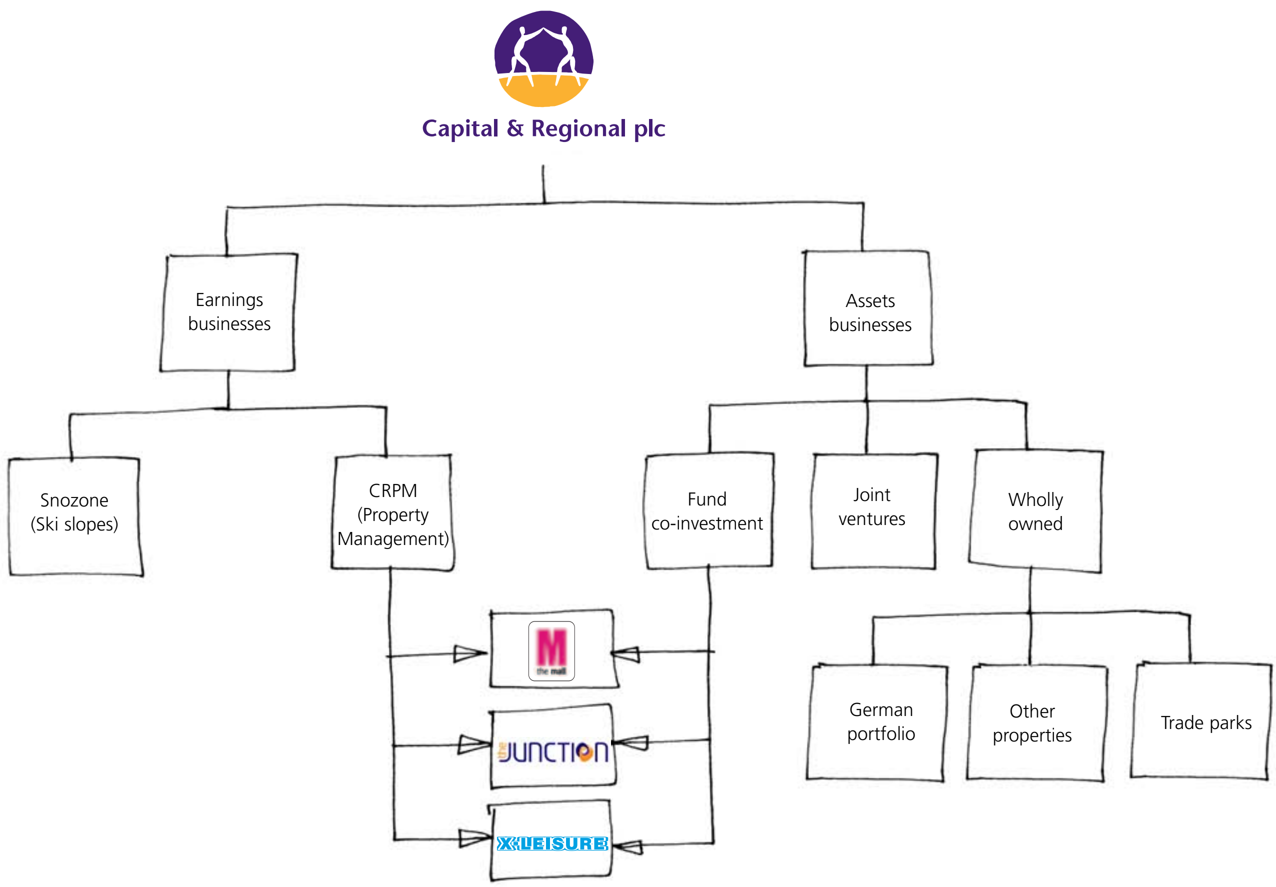
Annual Report 2005.

Contents

Capital & Regional… what we do

- C&R is a co-investing property asset manager. This means that we manage property assets for funds in which we hold a significant stake.
- This enables our equity and management to be leveraged over a large portfolio and enhances returns to shareholders.
- We aim to build best-of-class specialist management teams for the retail and leisure sectors in which we operate.

Group structure

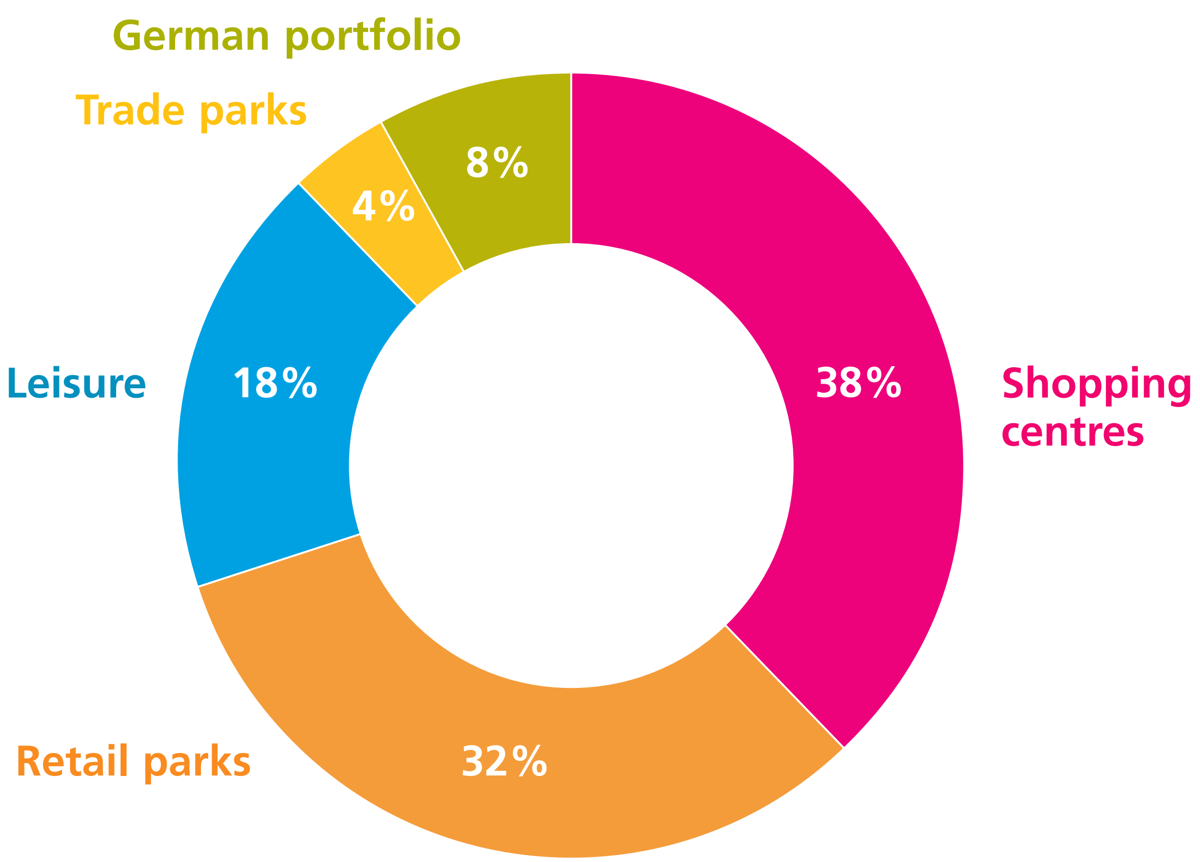


Capital & Regional… at a glance

Our specialist management teams

	CEO	Fund	Non-fund activities
Long established teams			
Shopping centres	Ken Ford	Mall	–
Retail parks	Andrew Lewis-Pratt	Junction	Morfa Retail Park, Swansea Capital Retail Park, Cardiff
Leisure	PY Gerbeau	X-Leisure	Xscape, Snozone Great Northern
New activities			
German portfolio	Xavier Pullen	–	87.4% of big box retail portfolio
Trade centres	Andrew Lewis-Pratt	–	Wholly owned portfolio

Group exposure to property by sector

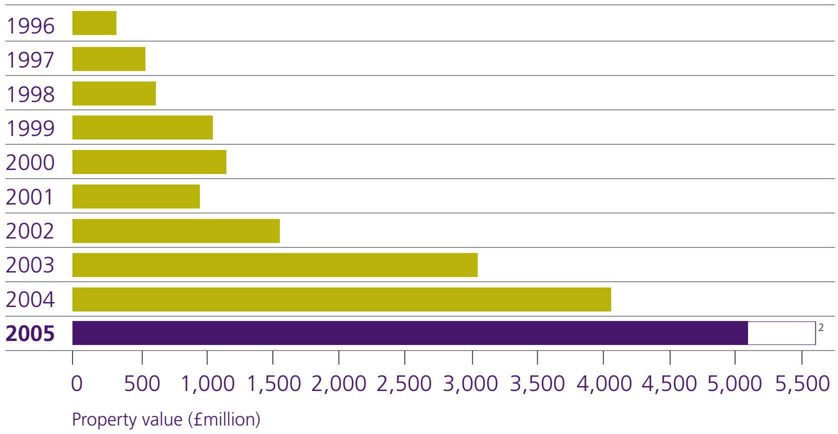


Financial highlights

£5.6 bn

Portfolio

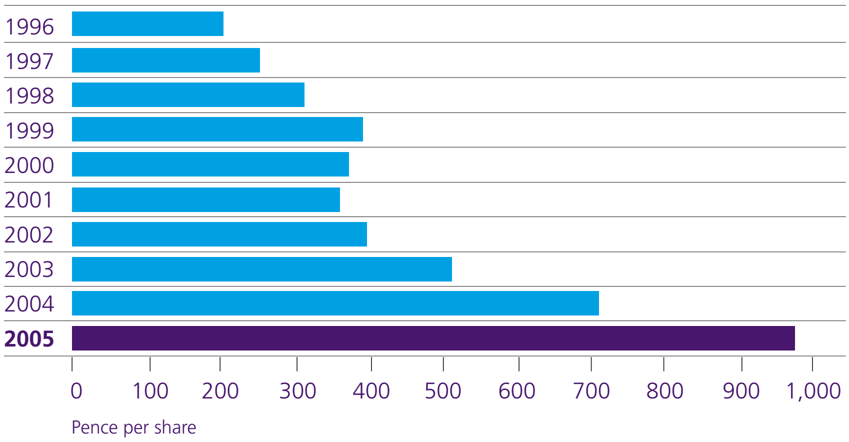
Property under management



37%

NAV growth

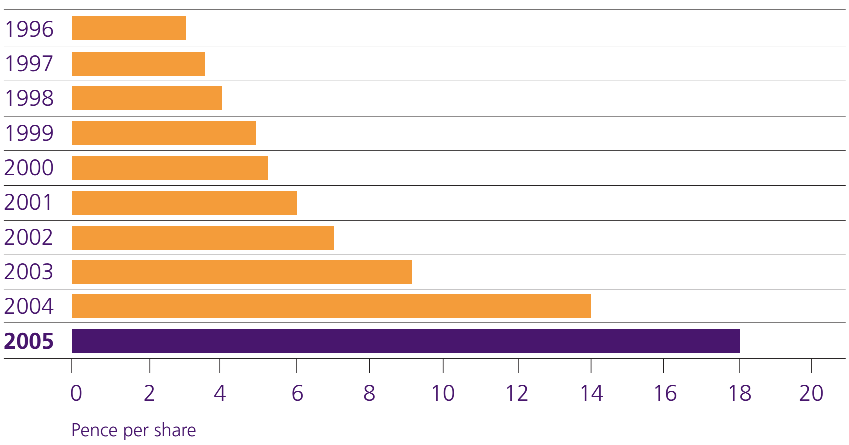
Growth in adjusted fully diluted net asset value (NAV[1]) per share



29%

Dividend growth

Dividend growth



[1] For definition of terms refer to "Glossary of terms" on page 72.

[2] £5.6 billion at 28 February 2006.

Chairman's statement

2005 saw the Company achieve a 36.6% total return on equity before exceptional items, the third consecutive year in which returns have exceeded 30%. While this period has undoubtedly seen highly favourable conditions in the UK property investment market, the Company has delivered enhanced returns to shareholders through its property management skills and intelligent use of the capital markets to create advantageous financing structures.

Total property assets under management have since the year end reached £5.6 billion, principally held through our three established funds investing in shopping centres, retail parks and urban entertainment complexes. The economies of scale arising from our fund-based business model (on the financing as well as the asset management side) benefit both the fund investors and our own shareholders. The performance fees payable to the Company by the three funds in respect of 2005 exceeded £50 million for the first time.

We have further strengthened the specialised management teams responsible for each of our funds and they now have greater depth than ever before. While our established operations have continued to grow, we have taken two carefully considered new initiatives, in the area of trade parks in the UK and retail parks in Germany. The first signs for these two new businesses are encouraging and, combined with the further growth in scale, quality and value which we anticipate in our existing areas of specialisation, they should enable us to deliver continued strong returns.

Dividends

The Board is recommending a final dividend of 11p (2004: 9p), bringing the total for the year to 18p (2004: 14p), a 29% increase over the previous year. The total dividends for the year are covered 2.5 times by total after tax profit before exceptional items and 1.6 times by recurring pre-tax profit.

Board

David Cherry, who has been a non-executive director for nine years, is retiring following this year's AGM. His lifetime of experience in the property market has been of great value to the Company, at every stage of its development, but particularly in recent years as the property management operations conducted through CRPM adapted, with his advice and guidance, to the rapid growth in the property assets under management. We should all be grateful for his contribution during this exceptional period in the Company's development.

Employees

Our success derives from the skills, energy and commitment of our employees, of whom there are now 147 in our London and Glasgow offices and 522 in our individual centres and Snozone operations. Strong financial markets do not by any means make for an easy life and our employees, old and new, have achieved extraordinary results for the Company, not just in 2005, but over many years. On behalf of the shareholders, the Board and I give them our warm thanks and appreciation.

Tom Chandos
Chairman

Tom Chandos
Chairman

Chief and Deputy Chief Executives' review

2005 has been a truly great year where we have seen significant developments in the business and excellent returns to shareholders. We remain confident that we will deliver continued outperformance in the future.

Financial results

We are pleased to be able to report strong financial results for 2005. Highlights include:

- Return on equity before exceptional items of 36.6% (2004: 39.0%)
- Adjusted fully diluted net asset value per share up to 975p, 37.3% increase
- 28.6% increase in the full-year dividend to 18p (2004: 14p).

Background to the financial results

Our 36.6% return on equity is high, significantly above our long-term average. It arises from a strong underlying business model, significantly boosted by the general growth in retail property values. Our total return can be broken down as follows:

Breakdown of total return	2005 %	2004 %
Underlying return	**18.4**	17.5
Yield shift	**22.2**	21.5
No SDLT relief in disadvantaged areas	**(4.0)**	–
Total return before exceptional items	**36.6**	39.0

The underlying return of 18.4% is above our target range of "mid to high teens" which we aim to deliver to our shareholders over the long term. It excludes the 4.0% extra provision for stamp duty made when the Chancellor removed relief for disadvantaged areas. This had a bigger impact on The Mall and Junction Funds than other funds in the relevant IPD index.

Fund performance

Each fund has outperformed its benchmark on both a geared and ungeared basis in each of the last three years:

Fund performance over last three years

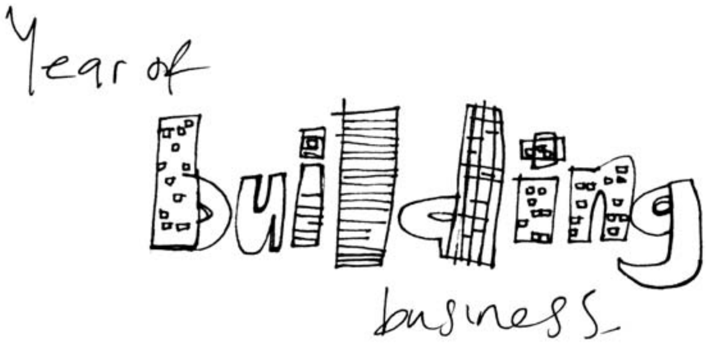
	Geared return %	Ungeared return %	IPD IRR %
Mall 2003	33.5	21.7	15.2
Mall 2004	26.0	19.6	17.1
Mall 2005	22.8	16.5	16.3
Junction 2003	28.2	17.7	16.6
Junction 2004	35.6	24.0	23.5
Junction 2005	34.1	23.3	22.1
			C&R hurdle
X-Leisure 2004 nine months	18.0	11.4	8.9
X-Leisure 2005	28.3	15.3	12.0

The Mall Fund is measured against the IPD Shopping Centres index, and The Junction Fund against the IPD Retail Parks index. The Leisure sector is much smaller and our properties form a significant part of it, so we are measured against an absolute return of 12%.

Martin Barber
Chief Executive

Xavier Pullen
Deputy Chief Executive

Chief and Deputy Chief Executives' review continued



Our strategic approach
The directors believe that success in the property business requires the right assets, the right money and most significantly the right people.

The right assets: we buy property in sectors where active management can add value, and where there is long-term strategic strength. We like sectors where there is reason to expect long-term rental and value growth, caused for example by tight planning restrictions, or clear market trends.

The right money: this encapsulates not just the choice of bank, but also finding the right equity investors and channelling their money into property through the right corporate and tax structures. Our current structure enables us to address two different equity markets – institutional property investors wanting specific types of property exposure, and equity market investors interested in property as a business. Capital markets may well change over the next few years, driven by changes in tax legislation, the possible introduction of a UK REIT and the emergence of tax-efficient offshore investment vehicles. We would expect to adapt to new market conditions as they arise.

The right people: one of C&R's distinguishing features is its willingness to build up strong specialist management teams. We currently have three sector-specific divisions, each with a track record in its sector, and each with its own finance and accounting resource, marketing, leasing and in some cases HR. The corporate team at the centre works mainly on business development, IT, reporting and tax. Cross-divisional committees on HR, marketing, construction and banking encourage information sharing and cordial relationships.

Business development
Our two recent initiatives, in Germany and in trade parks, are consistent with the strategic approach outlined above.

In Germany we spent nearly two years developing our relationship with the Hahn Group before we invested. We believe they are the right people to manage our German retail warehouse portfolio. Although we own 87.4% of the equity in the portfolio and have legal control, they are treated as partners and we benefit from their knowledge in the local market.

Our trade parks portfolio offers a significant opportunity for us to add value. They will use their experience of developing the retail park sector, to build a new niche business primarily serving trade rather than the ultimate consumer. We believe that they have the tenant contacts, planning expertise and ability to assemble a larger portfolio built upon the £68 million portfolio acquired from the T3 fund.

Changing capital markets
The equity markets available for property are changing.

- Offshore investment companies have already raised large sums through Guernsey and the Isle of Man to invest in high-yielding property.

- Onshore, there is the prospect of a tax-efficient investment vehicle in the form of a REIT which would be easier to run than an offshore structure.

C&R is, in its present form, unlikely to convert into a REIT, but we are monitoring developments closely, and will react to opportunities as they arise. In the meantime our current business model is working well.

Market conditions
During early 2005 there was much talk of a retailing slump. However there were no major problems for our business, except in some small sub-sectors, and trading improved later in the year. We benefit from the dynamism of the market, and so far we have been able to treat retailer failures as opportunities to improve the tenant mix.

Future prospects
We have enjoyed three years of positive yield shift, rental growth and close to full occupancy. There is good reason to suppose that these trends have further to go, but if they do not our businesses should still prosper.

Yield shift: there is a huge weight of money seeking exposure to good quality retail property which may well drive further yield shift. Equivalent yields of 5% to 6% still make sense against an index linked gilt rate of under 1%.

Rental growth: there is a dynamic UK retail sector underpinning future occupancy and rental growth. We have seen a small number of failures, but very few long-term vacancies. We enjoy working closely with the retailers and we think that our active management approach will work well in bad times as well as good.

Overall we can report that the Company is in good shape and we look forward to continued success in the future.

Martin Barber
Chief Executive

Xavier Pullen
Deputy Chief Executive

Finance Director's review

This section of the annual report is intended to give further detailed information to help investors and others to evaluate the business.

Measuring performance
We follow two corporate performance measures closely – total return on equity and recurring pre-tax profit. Our total profit figure is less meaningful, as it is heavily influenced by non-recurring items such as property disposal profits.

Return on equity: our 36.6% total return for the year is shown in the table below:

Total accounting return before exceptionals (TAR)

	2005 £m	2004 £m
Profit before tax and exceptional items	43.5	36.2
Revaluation gains	164.5	122.0
Total return before tax and exceptionals	208.0	158.2
Tax	(13.7)	(15.1)
Total return for the year	194.3	143.1
Adjusted return on equity, before exceptional items	36.6%	39.0%

The high return is achieved partly by yield shift, but even if there had been no yield shift we estimate that our return would still have been 18.4% (see page 5).

Recurring pre-tax profit: our profit and loss account includes several one-off items which make it difficult to evaluate ongoing profitability. This problem will increase under the new International Financial Reporting Standards (IFRS) when revaluation surpluses and debt mark to market will be included in the income statement. We therefore measure "recurring pre-tax profit", the recurring earnings of the business before performance fees, variable overhead, property disposal profits or losses and other non-recurring items. The measure is useful for:

- Monitoring performance.
- Assessing our interest cover and gearing position.
- Guiding dividend policy.

2005 recurring pre-tax profit was £20.2 million and full details are given in note 2. We have seen a substantial increase from 2004 due to increases in rental income and management fee income, and due to the inclusion of the high-yielding German portfolio and a bigger share of Great Northern, Manchester.

William Sunnucks
Group Finance Director

Finance Director's review continued

it's not all yield shift

Valuable earnings businesses

Analysing yield shift

Yield shift improves our total return by increasing our revaluation surplus.

Our revaluation surplus has increased by £109 million due to yield shift estimated as follows:

- For shopping centres and retail parks we use the shift in the equivalent yield for the IPD benchmark indices.
- For leisure we use yield shift on our own portfolio adjusted to a like-for-like basis as a proxy for market yield shift.
- We apply the yield shift to the portfolios at the beginning of the year.

Our profit after tax was increased by £9 million due to yield shift, via the performance fee. We estimate this by assuming that there were no yield shift movements over the three-year performance period, and putting corresponding adjustments through the fund returns, the variable management costs and the tax charge.

Earnings businesses

Our two earnings businesses use very little capital and their value is not fully reflected in our balance sheet. Our balance sheet includes £35 million for the two businesses which this year generated pre-tax profits of £43 million.

Capital & Regional Property Management Limited: Capital & Regional Property Management (CRPM) employs 147 staff in our London and Glasgow offices and manages property valued at £5.6 billion. It has management contracts with the three funds, ranging from five to 15 years in length and also receives small amounts of income from C&R's non-fund interests.

CRPM's property management profit can be divided between recurring and non-recurring profit streams. Recurring profits include all fee income except performance fees. Approximately 80% of all overhead except for bonuses and management incentive schemes is allocated to this business. The remaining 20% is allocated to our asset management business (see note 2).

The Corporate team
1. Falguni Desai
2. Doug McAndrew
3. Tim Caufield
4. Anton Manuelpillai

Capital & Regional Property Management business
Profit and loss account

	2005 £m	2004 £m
Fixed fees	**15.3**	12.4
Service charge fees	**3.9**	3.3
Other fees	**3.6**	3.6
Fixed management expense	**(12.6)**	(10.6)
Goodwill amortisation	**(1.1)**	(1.2)
	9.1	7.5
Mall performance fee	**29.6**	22.8
Junction performance fee	**17.3**	7.3
X-Leisure performance fee	**4.1**	1.1
Variable overhead – bonuses, CAP, LTIP	**(18.9)**	(11.8)
	32.1	19.4
CRPM profit before tax	**41.2**	26.9

Snozone Limited operates the ski slopes at the three Xscapes. It requires very little capital investment, pays a full arms-length rent to the Xscape partnerships and made a profit of £1.8 million in 2005. It is one of the very few profitable indoor ski slope operators, and has opportunities for expansion. It is of particular value to C&R as its operating skills give us credibility in starting new Xscapes.

Snozone profits	2005 £m	2004 £m
Income	**9.3**	8.9
Expenses	**(7.5)**	(7.8)
Profit before tax	**1.8**	1.1

Staff numbers: the principal assets of Snozone and CRPM are people. Staff numbers for the whole C&R operation, including people employed at the centres and paid directly through the service charge budgets, are shown below:

Numbers of employees	December 2005	December 2004
Shopping centres	**58**	48
Retail parks	**24**	21
Leisure	**27**	26
Corporate	**38**	33
Total CRPM employees	**147**	128
Employed at The Malls	**288**	278
Employed at the leisure centres	**17**	23
Snozone employees	**217**	196
Total	**669**	625

The Corporate team
5. Tracy Richardson
6. Richard Snooks
7. Anthony Brady

Assets business

Our property ownership business is fairly valued in the balance sheet. All properties are carried at market value, except Great Northern which is a trading property and the accounting is complex because it was acquired in two halves. Net of "negative goodwill" the carrying value is £83 million, which is some £10 million below market value.

Three balance sheet presentations

	Enterprise £m	See through £m	Statutory £m
Mall	2,334	610	350
Junction	1,440	394	208
X-Leisure	701	75	32
Xscapes	219	121	46
Germany	136	118	136
Wholly owned	263	263	263
Total property	5,093	1,581	1,035
Working capital etc	117	5	19
Debt	(2,662)	*(892)	*(360)
Net assets	2,548	694	694
C&R shareholders	694	694	694
Fund investors	1,854		
Total equity	2,548	694	694

* Debt net of cash held.

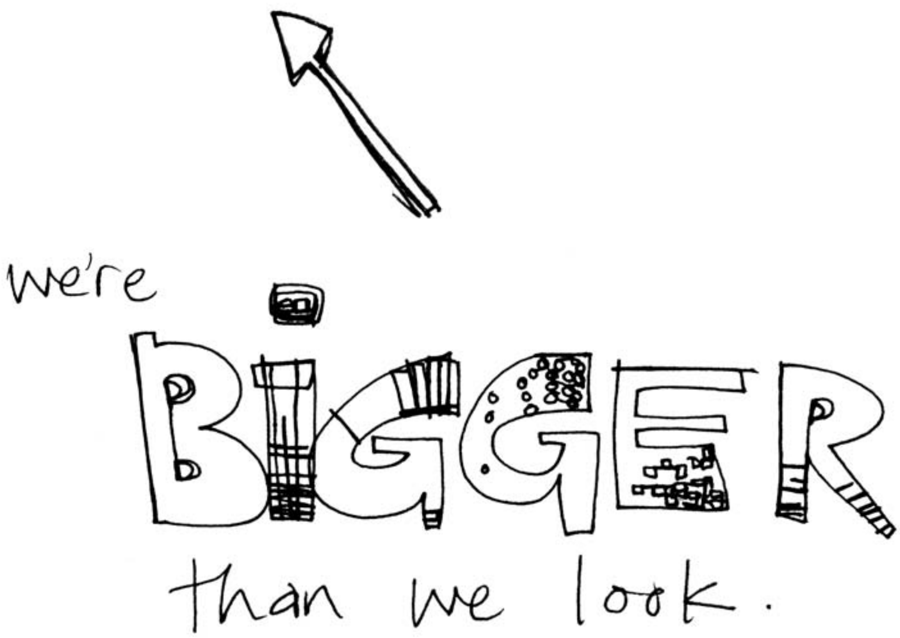
We show in the table the three balance sheet presentations. The "enterprise" basis includes 100% of all the funds and joint ventures we manage. The "see through" basis calculates our total exposure to different types of property irrespective of the legal structure. The "statutory" basis follows the statutory reporting requirements.

This shows that we are exposed to £1,581 million of property, financed by £694 million equity and £892 million debt. Our debt to equity ratio is 129% using this method, whereas our statutory balance sheet only shows 52%.

Financing

2005 was a good year for borrowers. Increasing competition among banks has driven down margins, and the bond market has given borrowers direct access to investors at even lower margins.

Our weighted average interest margin fell from 1.11% to 0.74%. The biggest change was the securitisation of 20 shopping centres in The Mall Fund, which resulted in the replacement of £1.06 billion of bank debt at a 0.90% margin with bonds at a 0.18% margin. After amortisation of the significant fees involved, the saving for the fund was £6 million per annum.



See through debt	Net debt (our share) £m	Interest margin %	Interest cost %	Hedged %	Duration of fixings (months)
On balance sheet					
• £ sterling	237	0.96%	5.38%	44.8%	20
• Euros – sterling equivalent	108	1.11%	3.81%	66.1%	55
Fund debt	475	0.52%	5.11%	94.5%	60
Partnership debt	72	0.95%	6.07%	61.5%	41
Total 2005	892	0.74%	5.10%	75.1%	52
Total 2004	649	1.11%	5.69%	72.0%	29

The increase in duration was also driven by The Mall securitisation where the old swaps were replaced by a new seven-year swap.

Share capital and CULS

Since June 2004 our fully diluted share capital has fallen from 75.8 million shares to 72.5 million shares. The Company has bought 77% of its Convertible Unsecured Loan Stock (CULS) back in the market at a cost of £75.2 million, and holders of a further 7% have exercised their conversion rights, leaving only 16% of the original issue outstanding. Our buyback made sense because:

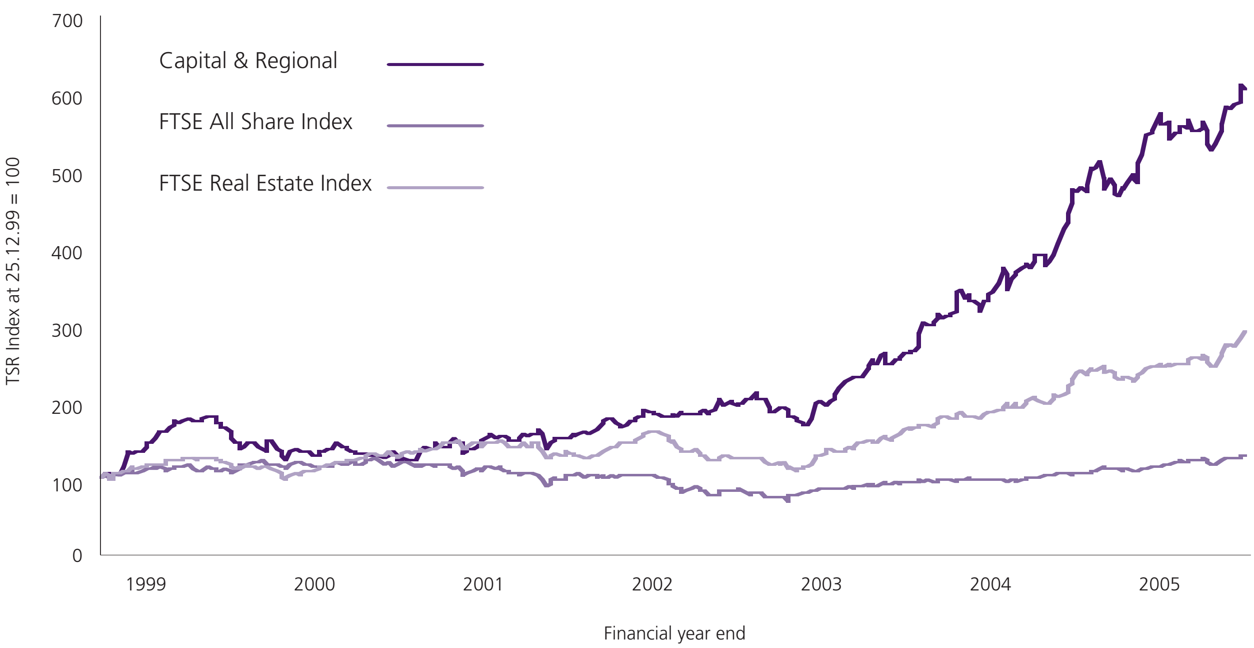
- The buyback of CULS in the market was at a discount to underlying NAV, a value enhancing transaction; and
- The premium paid on the buyback, which results in the £46.9 million exceptional charge, is tax deductible.

The owners of the remaining CULS can convert them into shares in July each year. We expect a large number to convert this July, because the dividend stream from the shares now clearly exceeds the 6.75% coupon on the CULS.

During the same period we have also raised £50 million from two issues totalling 6.56 million new ordinary shares.

William Sunnucks
Finance Director

Total shareholder return (TSR) for the period 25 December 1999 to 30 December 2005



The Mall has grown to become the largest UK shopping centre indirect investment vehicle, owning and operating some 9% of the UK market.

Market conditions

The shopping centre investment market enjoyed another record year in 2005. 95 centres changed hands at over £7 billion[1], up 36% from 2004, itself a record year. Investor appetite for centres has showed no sign of abatement, encouraged by the income and multi-let risk characteristics of this class of asset. This strong investor demand has pushed yields down by 0.5% over the year.

In the occupier market the paradox continues: consumer demand has clearly weakened, and operational cost increases have put pressure on some retailers' profitability. But demand for quality space continues to fuel rental growth.

The emerging consensus is that this situation is likely to prevail for most of 2006, but could change in 2007. In this scenario, we believe The Mall's direct, income-focused management model will continue to differentiate it from the competition, both for the shoppers' pound and investors' capital.

The Mall Fund

Established in March 2002 by Capital & Regional and Morley Fund Management, The Mall has grown to become the largest UK shopping centre indirect investment vehicle, owning and operating some 9% of the UK market.

Gross assets are now approximately £2.8 billion in 23 Malls with common investment criteria:

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

[1] Source: DTZ

BIGGEST
UK specialist
shopping centre fund.

Operating review – shopping centres continued

Acquisitions and disposals
The Mall has been extremely active in the investment market. It has bought centres for a total of £675 million in Camberley, Luton, Uxbridge, Redhill and Bradford, all acquired off market. It has sold Redhill and Bradford shortly after purchase as it was judged these centres would not contribute positively to investor returns. In addition, during Autumn 2005 The Pallasades Birmingham was sold with the proceeds recycled into the return additive acquisitions above.

Fund investors
During 2005 the investor base grew from 30 to 36 with £72 million new equity invested. Together with revaluation surplus the total equity invested in the fund has now reached £1.3 billion.

Fund debt
One of the major strategic events for The Mall in 2005 was the restructuring of the fund's debt through the issue of £1.06 billion of Mall bonds in May secured on 20 out of 22 Malls at 52% loan to value. The bonds were rated triple A by all three rating agencies, reflecting the strength of the property locations, the diversity of the tenant base and the quality of the management structure. As a result the interest margin fell from 0.90% to 0.18% reducing our financing costs by £6 million a year.

At the same time we were able to retain the operational flexibility essential to the success of The Mall business through a £300 million capital expenditure and acquisition facility entered into with the Royal Bank of Scotland.

The Mall's market position
We continue to see healthy, but selective, retailer demand for the right space. This is reflected in an average void rate for the year of 4.3% (2004: 3.5%). This includes strategic vacancies for reconfiguration and re-letting.

Across the entire portfolio there are current and future opportunities to create the right quality of space to attract retailer demand. This in turn should encourage more shopping visits and fuel sustainable rental growth and revenues. When these opportunities are set alongside our Mall-branded retailer and community marketing activities and our value-for-money direct management approach, we believe The Mall is well placed to compete in the more challenging consumer and retail climate.

Performance
The Mall has outperformed its benchmark index at geared and ungeared level in each of the last three years (see page 5).

In 2005 we suffered from the removal of SDLT relief in disadvantaged areas. This affected 45% of our portfolio but only 12% of the index. An adjustment for this would increase the small outperformance shown at property level to a much more significant 1.3%.

At geared level the outperformance is even more marked, being 22.8% after all fund level costs and performance fees against the 16.3% index.

Ken Ford
Chief Executive – The Mall

The Mall Executive team
1. Matt Chambers
2. Gaynor Gillespie
3. Mark Bourgeois
4. John Wood

Shopping centres managed by C&R

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Mall Fund – C&R co-investment 26.1%				
Valued at £40 million to £50 million				
The Mall, Gloucester	Leasehold covered centre on two floors with 400 car park spaces.	185,000	H&M Hennes, Allsports, Poundland, Comfort Shoes, Sports Soccer.	72
The Mall, Barnsley	Leasehold covered centre on two floors with 519 car park spaces.	180,000	Primark, Wilkinsons, Woolworths, TK Maxx, Bon Marche.	50
Valued at £50 million to £100 million				
The Mall, Walthamstow	Leasehold covered centre on two floors with 870 car park spaces.	260,000	Asda, Bhs, Top Shop/Top Man, Poundland, Boots.	71
The Mall, Romford	Leasehold covered centre on three floors with 1,000 car park spaces.	214,000	Superdrug, Choice, Bon Marche, Game Stores, Vision Express.	53
The Mall, Southampton	Freehold covered centre on two floors with 810 car park spaces.	205,000	Matalan, Poundland, Legends Surf Shops, Mark One, Optical Express.	88
The Mall, Aberdeen	Freehold single level covered centre with 400 car park spaces.	190,000	Debenhams, Ottakars, HMV, Argos, Superdrug.	34
The Mall, Edgware	Freehold single level covered centre with 1,100 car park spaces.	185,000	Sainsburys, Marks & Spencer, WH Smith, Boots, Clinton Cards.	56
The Mall, Falkirk	Freehold covered centre, on two floors with 400 car park spaces.	160,000	Argos, Clinton Cards, HMV, Superdrug, New Look.	69
Valued at £100 million to £150 million				
The Mall, Sutton Coldfield	Freehold partially open centre on a single level with 960 car park spaces.	545,000	Bhs, James Beattie, Woolworths, Boots, WH Smith.	129
The Mall, Blackburn	Leasehold partially covered single level centre with 1,078 car park spaces.	495,000	Debenhams, TJ Hughes, Woolworths, Boots, New Look.	153
The Mall, Maidstone	Freehold covered centre, on three floors with 1,050 car park spaces.	493,000	Bhs, Boots, TJ Hughes, Wilkinsons, Dixons.	120
The Mall, Middlesbrough	Freehold single level covered centre with 550 car park spaces.	418,000	Boots, Littlewoods, WH Smith, Bon Marche, Iceland.	92
The Mall, Bexleyheath	Leasehold single level covered centre with 800 car park spaces.	410,000	Woolworths, Marks & Spencer, Dorothy Perkins, WH Smith, Boots.	93
Uxbridge – acquired Jan 2006	Leasehold single level covered centre with 1,150 car park spaces.	360,000	Marks & Spencer, Tesco, TK Maxx, Peacocks, Wilkinsons, Argos.	115
The Mall, Epsom	Leasehold single level covered centre with 800 car park spaces.	354,000	WH Smith, Waitrose, House of Fraser, HMV, H&M Hennes.	106
The Mall, Bristol	Leasehold covered centre on three floors with 1,000 car park spaces.	327,000	Woolworths, WH Smith, Virgin, Argos, Adams Childrenswear.	154
The Mall, Ilford	Freehold covered centre on three floors with 1,200 car park spaces.	290,000	Debenhams, Clinton Cards, WH Smith, Top Shop/Top Man, AJT Trading.	102
The Mall, Preston	Freehold two level covered centre, with 400 car park spaces.	287,000	H&M Hennes, New Look, WH Smith, Dorothy Perkins, Vision Express.	118
The Mall, Chester	Leasehold single level covered shopping centre with 521 car park spaces.	243,000	River Island, H&M Hennes, Dolcis, La Senza, Monsoon Accessorize.	120
Valued at £150 million plus				
Luton – acquired Jan 2006	Leasehold covered centre on two floors with 2,300 car park spaces.	750,000	Debenhams, Boots, HMV, Next, Top Shop, Top Man	158
The Mall, Wood Green	Freehold partially open centre on two floors with 1,500 car park spaces.	617,000	Cine-UK, Pearsons, Boots, Woolworths, Hennes.	123
The Mall, Camberley	Part leasehold covered centre on one floor with 1,040 car park spaces.	390,000	Boots, Virgin, River Island, First Sport, Dorothy Perkins.	185
The Mall, Norwich	Freehold covered centre on four floors with 800 car park spaces.	374,000	Vue Cinema, Boots, H&M Hennes, Virgin, Argos.	130

Operating review – retail parks

In 2005 The Junction was the top performer out of 27 specialist vehicle funds included in the HSBC/APUT Pooled Property Fund Index.

Retail park market

The out of town retail park sector has seen phenomenal growth since the early 1980s with its market share now reaching 30%. It is able to offer consumers convenient shopping, avoiding the congestion of town centres. Planning permissions for further development is constrained – so those planning permissions which exist are valuable.

The market is becoming more discriminating. Opportunities for rental growth are seen to be stronger in locations with planning consent for any sort of retailing (open A1) than in those restricted to bulky goods retailers. However, the reality is more complex and although planning status is important, a strong strategic location matters more. Some open A1 parks may struggle, while prime bulky goods locations will continue to perform strongly.

The Junction retail park portfolio

The Junction's retail park portfolio would be difficult to replicate in the current market. It has been assembled using the following investment criteria:

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

Approximately 40% of the portfolio now has open A1 consent. The portfolio has reached a size where scale economies are achievable, both in financing and in dealing with retail chains.

Best
in class.
the JUNCTION
T.K.maxx
Argos
TESCO
home plus
COMET
B&Q
NEXT
Carpet Right
SPORTS WORLD
a better place for shopping
JUNCTION
the pod
services
ground floor
information point
meeting point
bus stop & route info.
cash & phones
community centre
showers
first floor
the pod

Operating review – retail parks continued

Junction Fund performance

In 2005 The Junction was the top performer out of 27 specialist vehicle funds included in the HSBC/APUT Pooled Property Fund Index. This was achieved despite a setback when stamp duty relief for disadvantaged areas was withdrawn and 49% of our portfolio was affected compared to 21% in the index.

Junction Fund developments, reconfigurations and refurbishments

Development activity, reconfigurations and refurbishment contributed significantly to the high returns generated in 2005. This is relatively low risk, as pre-lets are normally in place before building work starts, and most of the construction risk is borne by the contractors. Value is created through refurbishments, for example, glazed frontages, reconfigurations of existing space and construction of mezzanines, to anticipate tenant requirements as well as by adding new floor space.

Non-fund retail parks

Glasgow Fort: although this shopping park was sold to the Hercules Fund in 2004, we are still receiving deferred consideration payments as further lettings and planning permissions are achieved.

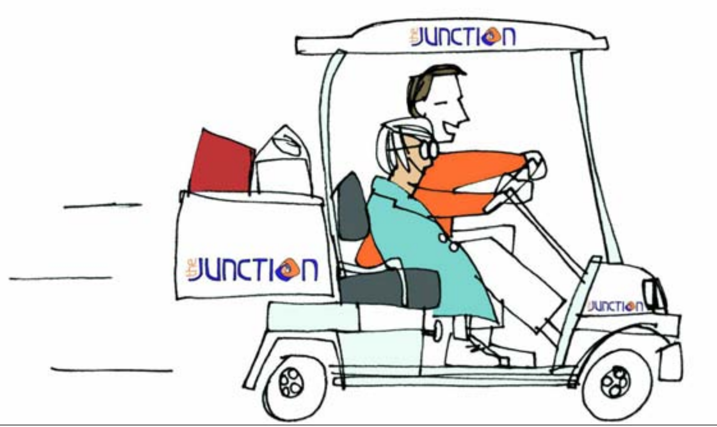
Morfa Retail Park, Swansea: this investment was completed in October 2004 and has traded strongly since opening. This together with yield shift and development of further restaurant units has contributed to a significant growth in value.

Capital Retail Park, Cardiff: we continued during 2005 to progress an opportunity to create a new retail park investment in Cardiff, including entering into a joint venture with a Welsh partner, PMG Estates Limited. Pre-lets to Costco and a forward land sale of part of the site to Asda now anchor the scheme and we expect to commence development in quarter four, 2006.

The Junction team
1. John Gatley
2. Graham Inglis
3. Ian Harris
4. James Boyd-Phillips


1 2 3 4

Andrew Lewis-Pratt
Chief Executive – The Junction



Retail parks managed by C&R

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Junction Fund – C&R co-investment 27.3%				
Gross value: £15 million to £50 million				
The Junction Renfrew Retail Park, Renfrewshire	Retail warehouse park, comprising a mixed retail warehouse and industrial scheme with 680 car park spaces.	189,242	Matalan, MFI, Carpetright, JJB.	18
The Junction Tulip Retail Park, Leeds	Retail warehouse park with 780 parking spaces.	140,035	The Range and Carpetright.	7
The Junction Blackpole Retail Park, Worcester	Retail warehouse park, with 514 car park spaces.	88,752	Comet, LIDL, Carpetright, DSG.	8
The Junction Broadwell Industrial Estate, Oldbury	Development site with retail and leisure consent.	37,065	–	6
Gross value: £50 million to £100 million				
The Junction Euro Retail Park and Ranelagh Road, Ipswich	Two retail warehouse parks with Euro Retail park benefiting from 693 car park spaces.	255,297	B&Q, JJB, Carpetright, Halfords.	13
The Junction Wembley Retail Park, Wembley	Located directly north of the new National Stadium, the scheme comprises an industrial and retail warehouse park with 452 car park spaces.	254,795	MFI, Carpetright, Wickes,Comet.	27
The Junction Ocean Retail Park and Victory Industrial Estate, Portsmouth	Retail warehouse park with 705 car park spaces with adjacent industrial estate.	227,859	Homebase, DSG, Halfords, Toys R Us.	16
The Junction Beckton Retail, London	Retail warehouse park, benefiting from an Open A1 non-food planning permission, with 515 car park spaces.	192,128	Woolworths, Matalan, JJB, Instore.	9
The Junction Abbotsinch Retail Park, Paisley	Retail warehouse park with 649 car park spaces.	184,937	B&Q, DFS, Comet, Land of Leather.	6
The Junction Great Western Retail Park, Glasgow	Retail warehouse park, located adjacent to a Sainsbury's supermarket and opposite a leisure park. It has 1,518 car park spaces.	184,785	B&Q, DSG, JJB, SCS.	10
The Junction Cambridge Close Retail Park, Aylesbury	Retail warehouse park with 650 car park spaces.	184,692	Wickes, Comet, Argos, Sportsworld.	12
The Junction St Georges Retail Park, Leicester	Open A1 non-food retail warehouse park with 512 car park spaces.	169,401	DSG, Next, Toys R Us, Mothercare.	12
The Junction Slough Retail Park, Slough	Retail warehouse park with 546 car park spaces.	152,929	Homebase, Wickes, DFS, Land of Leather.	7
The Junction Kittybrewster Retail Park, Aberdeen	Retail warehouse park benefiting from an open A1 non-food planning permission. It has 883 car park spaces.	141,773	TK Maxx, Halfords, Sportsworld, DFS.	13
The Junction Templars Retail Park, Oxford	Retail warehouse park with the benefit of Open A1 non-food planning permission and 485 car park spaces.	136,787	B&Q, Halfords, Comet, TK Maxx.	6
Gross value: £100 million to £150 million				
The Junction St Andrew's Quay , Hull	Retail warehouse park with 1,315 car park spaces.	323,776	B&Q, DFS, Comet, DSG.	22
The Junction Telford Forge Retail Park, Telford	Open non food A1 retail warehouse park with 1,343 car park spaces.	313,120	Next, Arcadia, TK Maxx , Boots.	22
The Junction Imperial Park, Bristol	Retail warehouse park with mixture of bulky and open A1 non-food planning. It has 1,200 car park spaces and planning permission for further development.	278,269	B&Q, Woolworths, JJB, Argos.	9
The Junction South Aylesford Retail Park, Maidstone	Retail warehouse park with 551 car park spaces.	167,320	Homebase, Comet, BHS, Halfords.	10
Gross value: £150 million to £200 million				
The Junction West Thurrock Retail Park, Essex	Open A1 non-food retail park with 1,646 car park spaces.	457,098	Decathlon, Asda Living, TK Maxx, Furniture Village.	23
Wholly owned by C&R				
Gross value: £100 million to £150 million				
Morfa Retail Park, Swansea	Retail park with planning consent for bulky, open A1 non-food, food, A3 units and leisure. It has 1,074 car park spaces.	342,301	B&Q, TK Maxx, Asda, Sportsworld, Next.	16

Operating review – leisure

Our leisure team now operates a £1 billion portfolio of leisure destinations in the UK. In addition to the Xscapes it manages the £701 million X-Leisure Fund and the Great Northern Retail Warehouse in Manchester. It also manages Snozone, the ski slope operator.

The leisure market
2005 saw a further stage in the development of the leisure property sector. Occupiers, developers and investors are becoming more sophisticated in their thinking and no longer seek to cluster all sub-sectors together without too much attention to tenant mix. Town centre circuits are evolving with operators seeking to be complementary and slightly differentiate their offer. Restaurant clusters are becoming much more customer focused. A number of restaurant operators such as Nandos, La Tasca and Pizza Express who previously would not consider out of town locations are now aggressively pursuing such opportunities. As for cinema groups, they are looking to both fill in gaps in the market and create super cinemas such as Showcase Deluxe, and are no longer taking a one-size-fits-all approach. The outcome of the 2005 Gambling Act, which effectively limited the anticipated level of "de-regulation" of the gambling industry has had little impact on the market.

Investors are increasingly appreciating the benefits of owning well-managed leisure destinations and we have seen the initial yields on our portfolio, adjusted for acquisitions and disposals, fall from 6.10% to 5.73%. Yields are still significantly higher than for retail property, and given the quality of the covenants, growing leisure spending and the structure of our leases, we believe there is room for the differential to close.

The X-Leisure approach

As C&R's leisure arm, the X-Leisure team has applied its successful business model throughout its business units, capitalising on a very strong industry knowledge and expertise. We have always passionately believed in the destination/experience business model achieving differentiation and a unique selling proposal. That is why as a team we concentrate on the consumer experience, as well as our tenants'/partners' success, and not just bricks and mortar.

It is evident that today's consumer has become more sophisticated; therefore, product differentiation is paramount. Differentiation comes from range, price and location but increasingly the total consumer experience is vital. Consumer experience and success comes from leisure destinations delivering unique and integrated experiences.

No longer can owners within these sectors sit back and collect rent and expect to outperform educated/specialist owners.

X-Leisure Fund

The X-Leisure Fund has continued to enjoy the benefits of an increasingly strong leisure market. It has seen a 7% rise in footfall across its destinations. This, coupled with a 4% increase in leisure spend in the UK, has created good trading conditions for operators which, in due course, should feed through to stronger rental growth.

The X-Leisure Fund in 2005 has sought to recycle capital released from disposals into acquisitions that offer attractive returns. Two acquisitions, opportunities with strong growth potential were identified in 2005 – Cambridge Leisure Park (acquired March 2005 for £39 million) and Queen's Links Leisure Park, Aberdeen (acquired August 2005 for £22.1 million). Since the end of the year the X-Leisure Fund has acquired the UGC cinema at Sixfields, Northampton for £9.2 million. There are opportunities to increase this holding with adjacent schemes and development opportunities. In term of sales, in January and February 2005 the X-Leisure Fund disposed of the three health and fitness clubs for £24.6 million.

Operating review – leisure continued

There has been very strong asset management activity in the portfolio during 2005 with new lettings, rent reviews and re-gears which have added significant additional value. In addition, two major capital projects were completed: the refurbishment of Tower Park, Poole and the installation of a new leisure attraction in Star City, Birmingham. During 2005 the X-Leisure Fund did not suffer any significant losses due to operator failure. The total loss for operators in default and subsequent void was below 1% of rental income.

The X-Leisure Fund had very a strong performance in 2005 of 28.3% (12% hurdle rate objective, achieving 18% return over nine months in its first year, 2004). The X-Leisure Fund has proved itself, as a credible market leader with a strong base of 17 institutional investors, and continues to prove the case for leisure as a long-term sustainable investment, thanks to its successful growth, track record, and financial performance.

Xscape

Xscape Milton Keynes (MK) has delivered a very strong return to C&R in 2005 of 38.9%. It has proved itself as an excellent investment for C&R, an excellent operating business for all its operators and also a huge success as one of the largest visitor attractions in the UK (6 million visitors in 2005).

Xscape Castleford/Leeds has benefited from an excellent increase in footfall in 2005 (3.2 million visitors). Although retail was a challenge for the UK market, food and beverage and leisure outlets performed very well in 2005.

Xscape Braehead opened on 6 April 2006 and is 90% pre-let (March 2006). There is a huge enthusiasm in Scotland, for what promises to be the best Xscape to date.

Snozone Holdings

2005 has been another record profit year for the C&R snowslope operating business. Despite increasing utility costs (gas, electricity), Snozone Holdings, through its two operating units in Milton Keynes and Castleford/Leeds delivered £1.85 million net profit. With an experienced and dedicated management team and a solid business strategy, our operating business should continue to grow organically in the UK through future Xscapes, starting with the Braehead/Glasgow opening. We have also had a number of approaches from overseas property owners interested in working with us to leverage our operating expertise in other countries.

This snow market is still not price sensitive. The average ticket price remains higher than the market reference with an outstanding spend per head. Snozone is managing to maintain high levels of quality of service within a more demanding environment due to a high return visit ratio and better educated customers who do not hesitate to compare Milton Keynes and Castleford.

Cost control remains a key focus. We have suffered from instability in the utility market which caused an average increase of 22% in electricity year on year and a 43% increase in gas.

Marketing and sales are the core elements of the business and revenue has increased year on year with a better targeted strategy to develop and attract new potentials.

Great Northern Warehouse

C&R bought the 50% stake owned by AWG plc in September 2005, and now owns 100% of the property. Thanks to asset management initiatives, numerous lettings, and the completion of the lease with London Clubs International, the building achieved a significant uplift from £72.5 million to £93.7 million in 2005.

Hemel Hempstead

This property was acquired by C&R in 2005 for £17 million and is currently under review for a transformation into a mixed-use scheme.

The X-Leisure team
1. Alastair Bell
2. Polly Farrell
3. Pierre Hardy
4. Arnaud Palu
5. Robert Warner

PY Gerbeau
Chief Executive – X-Leisure

building investor confidence

Leisure properties managed by C&R

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
X-Leisure Fund – C&R co-investment 10.7%				
Valued at £50 million plus				
Star City, Birmingham	Featuring the UK's largest multiplex cinema and largest casino in Europe, a health and fitness club, restaurants, bars, lifestyle retail and family entertainment centre.	392,985	Vue Cinema, Ten Pin, Stanley Casino, Holmes Place.	30
Brighton Marina, Brighton	The marina combines a mix of retail, leisure and residential, a working harbour and yacht moorings.	299,351	UGC, Bowlplex, David Lloyd.	73
O2 Leisure Scheme. Finchley, London	This "great outdoors" themed centre houses the largest free indoor aquarium in the UK.	271,620	Vue Cinema, Sainsburys, Esporta.	23
Valued at £25 million to £50 million				
Parrs Wood, Manchester	This centre has a mixture of facilities, including family restaurants, health and fitness, bowling, multiplex cinema, bingo, children's entertainment and a hotel.	234,286	UGC, Holmes Place, Ten Pin.	11
Fountain Park, Edinburgh	Scotland's largest entertainment destination.	232,999	UGC, Ten Pin, Virgin Active.	12
Tower Park Leisure Park, Poole	Comprises a range of attractions, including a multiplex cinema, water park and family restaurants.	206,148	UCI, Bowlplex, Rank.	17
Norwich Riverside, Norwich	This entertainment centre comprises bars, restaurants, nightclubs, multiplex cinema and bowling.	197,638	UCI, Hollywood Bowl, Luminar Leisure.	13
Fiveways, Birmingham	In central Birmingham, Fiveways comprises a cinema, casino, restaurants and late night bars.	186,345	UGC, Grosvenor Casino.	11
Grants, Croydon	This restored listed building contains bars, nightclubs and restaurants.	149,001	Vue Cinema, Holmes Place.	10
Cambridge Leisure, Cambridge	This centre has a nine-screen multiplex cinema, Health Club, bowling, a hotel and range of international bars and restaurants.	147,024	Cine UK, LA Fitness, Ten Pin.	20
Eureka Leisure Park, Ashford, Kent	This centre comprises multiplex cinema, family restaurants, health and fitness, nightclub, hotel, children's nursery and free parking.	101,826	Cine UK, Travelodge, Living Well.	9
Valued at £10 million to £25 million				
Lockmeadow Leisure Complex, Maidstone	This destination is home to the 700-year old Maidstone Lockmeadow Market.	139,780	Odeon Cinema, Luminar Leisure, David Lloyd.	10
Queens Link Leisure Park, Aberdeen	This leisure park, adjoining The Beach Esplanade, features a cinema and numerous restaurants.	128,081	UGC, Gala.	9
Bentley Bridge Leisure Park, Wolverhampton	Comprises a health and fitness club, multiplex cinema, bars and canal-side pub.	108,843	Cine UK, Healthlands.	8
Great North Leisure Park, Finchley, London	Comprising a multiplex centre, bowling, restaurants and a swimming pool.	88,185	Vue Cinema, Hollywood Bowl.	7
West India Quay, Docklands, London	This listed building contains bars, restaurants, multiplex cinema, health and fitness centre and the Museum of Docklands.	70,857	UGC, LA Fitness, Scottish & Newcastle.	17
Boldon Leisure Park, Tyneside	Cinema and restaurant complex adjacent to Asda.	53,592	UGC, McDonalds, Frankie & Bennys.	3
Xscape Partnerships				
(Joint ventures)				
Xscape Milton Keynes	This destination is anchored by the UK's largest indoor Real Snow Slopes.	420,000	Snozone, Cineworld, Virgin Active, Spirit Group, Ellis Brigham.	46
Xscape Castleford, Leeds	As well as a real indoor snow slope, this destination also features an ice climbing wall, skate park and indoor air park.	368,000	Cineworld, Snozone, Bowlplex, Ellis Brigham, Evans, Frankie & Bennys.	46
Xscape Braehead, Glasgow	This entertainment destination comprises extreme sports and leisure activities.	380,000	Odeon, Snozone, Bowlplex, Ellis Brigham.	37
Wholly owned				
Valued at £50 million to £100 million				
Great Northern Retail Warehouse, Manchester	Located in Manchester city centre, this converted Victorian warehouse includes bars, restaurants, a health and fitness centre, shops and multiplex cinema.	380,000	AMC Cinema, Virgin Active.	50
Valued at £10 million to £25 million				
Leisure World, Jarmans Field, Hemel Hempstead	First generation leisure park acquired for 2005 for redevelopment or refurbishment.	156,000	Luminar Leisure, Odeon Cinema.	2

Operating review – trade parks

“We see trade parks as a great opportunity. The “do it for you” market is rapidly expanding and is currently fragmented and unsophisticated. This allows us the opportunity to bring our core skills, experience and values to the benefit of our tenants and customers.”

Andrew Lewis-Pratt, Chief Executive – Fix UK

Trade park market

This is a niche market. Trade parks provide goods and services primarily to the building sector and are a one-stop shop for Tradesmen. There are already around 1,000 trade parks in the UK serving a market with a total spend of circa £50 billion per annum.

Current portfolio

Since December 2005 we have assembled a portfolio of 19 trade parks with a value in excess of £70 million, purchased at a net initial yield of 5.5% and with an average rent of just over £5 per sq ft.

Branded trade parks – Fix UK

Our core trade parks are in the process of being branded into Fix UK trade centres. Applying the same consistency of standards adopted by our colleagues at The Junction, The Mall and X-Leisure, the portfolio will benefit from new prominent signage, improved on-site facilities and close hands-on management by our in-house operations team.

Growth

Our current trade parks portfolio is already the largest in the UK. We intend to expand it significantly and rapidly through the acquisition of investment and development properties which meet the following criteria:

- Dominant trade parks or capable of becoming dominant.
- An immediate catchment of no less than 50,000.
- Located close to main arterial routes and other retail and trade locations.
- Planning for a trade park or capable of obtaining planning for a trade park.

Future performance

There are over 100 national and regional occupiers actively seeking representation on prime trade parks. We foresee many new entrants in this immature market further increasing the demand for the right space, leading to significant rental growth.

Bruce Ruddle

Jo Lord

Trade parks managed by C&R

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Wholly owned by C&R				
Principal parks				
Low Southwick Industrial Estate and Magnet Unit, Sunderland	The property comprises an industrial estate and extends to 3.5 acres.	75,384	Magnet, Ashtead Plant Hire, BSS Group.	21
Enterprise Trade Centre, Bristol	The property comprises an estate of purpose built trade warehouse units.	68,262	Motor World, Topps Tiles, Morplan.	13
Sheffield Industrial Estate and Tinslink Industrial Estate, Sheffield	The scheme comprises five warehouse units and one self contained unit, built in the 1970s.	55,873	Newey & Eyre Ltd, Anglian Windows, BSS Group, Howden.	6
Bletchley Trade Centre, Milton Keynes	Purpose built trade counter constructed in 2000.	47,889	BSS Group, City Electrical Factors, HSS Hire Service, Howden.	13
Units 1-3, Oakway and Units 1-8 Wren Unit, Treliske Industrial Estate,Truro	The Wren unit comprises a terrace of eight units and Units 1–3 Oakway comprises three units.	47,648	Magnet, Autoglass, Plumbase, Hammonds.	11

Other locations

- Miller Street Industrial Estate, Aberdeen
- Braintree Trade Centre, Essex
- Bulwark Business Park, Chepstow
- Pitreavie Business Park, Dunfermline
- Tufley Industrial Estate and the Teledyne Building, Gloucester
- Cappielow Industrial Estate, Greenock
- Longhill Industrial Estate, Hartlepool
- Newcastle Trade Centre
- Orbital Trade Park, Northampton
- City Trading Estate, Norwich
- Western Approach Industrial Estate, South Shields
- Units 1–12, Leechmere Industrial Estate, Sunderland
- Eleanor Trading Estate, Waltham Cross
- The A5 Trade Centre, Cannock – acquired March 2006

A new opportunity.

C&R now owns a portfolio of 14 big box retail properties in Germany valued at €232 million, of which 13 were bought in 2005.

Our expansion strategy has been management led. We started working with the Hahn Group (see below) in 2004, and built up a strong understanding with them before we invested. Hahn has a long and successful specialist track record in investing in big box retail throughout Germany for their substantial closed-end fund business. It is investing in the portfolio and has 10% equity interest in all acquisitions to date. Six of the properties were bought from existing Hahn-managed closed-end funds, the remainder being bought in the open market.

We were attracted by a property type with which we are familiar, and a management team specialising in a sector which offers attractive income yields and good asset management opportunities.

Results to date

We have been building up the portfolio over the last six months of the year. Our net rental income was running at an annualised rate of 6.9% and debt at 4%. In addition, the portfolio, when revalued at the year end showed a 3.6% uplift. The total return, after set-up costs of €8.1 million, has already made a useful contribution to the Company's results.

German retail warehouse market

The German retail warehouse market is a specialist sector driven by a number of substantial tenants and complicated by a generally illiquid and non-transparent market. Leases are generally very long and indexed giving few opportunities to test the open market rental value, which by most yardsticks appear very affordable and sustainable.

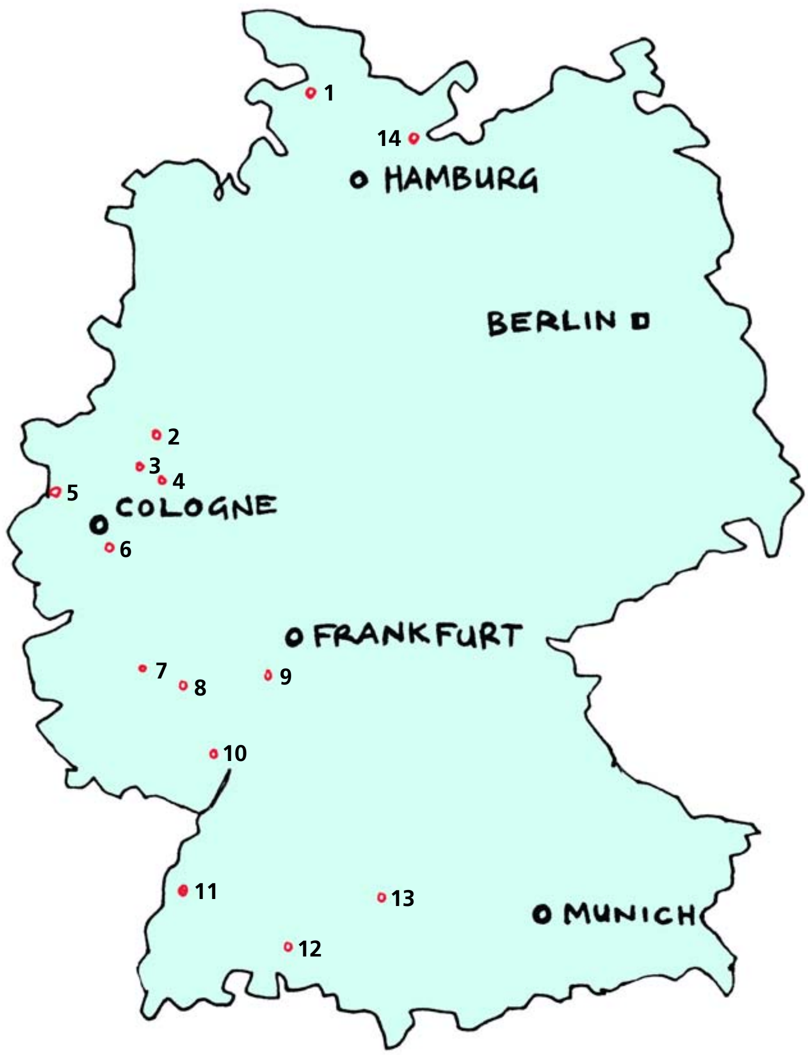
Over recent years the German retail warehouse market has seen little fluctuation in yields and rents but at the same time the sector maintains a close to 0% vacancy rate. The sector also benefits from long lease terms to excellent covenants such as Metro and REWE who are among Europe's largest retailers.

At the same time, this sector benefits from low management costs and low non-recoverable costs. Locations of the big box retail units are becoming more protected as German town planners are increasingly unwilling to grant planning permission for large retail units.

However, recent interest from foreign investors, especially from the UK and other European countries, has filled a gap left by the traditional German investors.

Xavier Pullen

Wilhelm zu Wied



Where we are

1. Heide
2. Selm
3. Herne
4. Dortmund
5. Aachen Brand
6. Köln-Gremberg
7. Kirchheimbolanden
8. Ingelheim
9. Mörfelden-Walldorf
10. Brühl
11. Sinzheim
12. Balingen
13. Leipheim
14. Lübeck – acquired January 2006

Strategy

Fortunately, we identified the opportunity to establish an operating platform early. It gives us sufficient scale to justify and implement a drive into expanding a very interesting opportunity. We are continuing to develop a relationship with Hahn and have also recruited a chartered surveyor who is a German national based in London, to implement this strategy together with Hahn.

We are continuing to see interesting opportunities with an emphasis on off-market transactions where we can capitalise on Hahn's local skills and at the same time bring in C&R's expertise in the out of town big box retail market, where there are very interesting parallels.

We are concentrating on acquisitions with the following criteria:

- Strong locations.
- Tight local planning policies.
- Tenant-led investments.
- Asset management opportunities.

The Hahn Group

The Hahn Group is an experienced real estate manager specialising in the retail warehouse sector. Based in Bergisch Gladbach, near Cologne, the Hahn Group has been active in this sector for over 20 years. Traditionally, the Hahn Group initiated closed-end funds for private investors. Having grown considerably in size in recent years, the Hahn Group today employs over 60 professional staff and has over 130 retail properties under management with an annual rent roll exceeding €120 million.

As a result, the Hahn Group has significant experience in this sector and has built up a strong management team over the years which uses its existing relationships with contractors, tenants and the owners of real estate to provide a cost-effective management service to maximise investment returns.

Our portfolio

Our German investments differ significantly from the typical UK retail park that we have specialised in in the UK, as in Germany we have acquired stand-alone retail units with emphasis on mainly food stores and some DIY stores which do not necessarily have the set up as a retail park. However, in a number of instances our tenants have sub-underlet to other specialist retailers and this gives us a potential management opportunity some time in the future.

Principal tenants

	Total %
Metro and subsidiaries (Real, Extra)	25.8
AVA & Edeka (Linked co-operatives)	4.6
Rewe and Subsidiaries	10.5
Wal*Mart	15.2
Plaza (Coop Schleswig Holstein)	17.5
Others (24 other retailers)	26.4
	100.0

Financial structure

This portfolio is readily financeable. We have borrowed 75% of our total acquisition cost from three banks, HBOS, Eurohypo and Landesbank Rheinland-Pfalz, and fixed our interest at an all-in rate of 3.94% for five years.

Our share of the portfolio is 87.43%. The Hahn Group holds 10%, and in some cases the vendors of the properties have retained a 5.1% share which reduces transfer tax payable.

Germany

Location	Principal tenant	Area (sq m)	C&R share
Valued at €3 million to €10 million			
Heide	AVA	4,623	85.41%
Selm	Edeka	3,602	85.41%
Leipheim	Edeka	3,222	83.70%
Aachen Brand	Praktiker	2,784	85.41%
Kirchheimbolanden	Hit	2,473	85.41%
Valued at €10 million to €20 million			
Brühl	Wal Mart	17,525	85.41%
Ingelheim	Wal Mart	10,245	90.00%
Köln-Gremberg	Real	8,300	90.00%
Balingen	Toom (DIY)	7,456	85.41%
Herne	Toom (Food)	7,411	90.00%
Valued at €20 million to €50 million			
Sinzheim	Real	16,421	90.00%
Möerfelden-Walldorf	Rewe	12,166	90.00%
Valued at €50 million to €100 million			
Dortmund	Real	32,459	85.32%

Directors

1. Martin Barber
Chief Executive, 61
Member of Nomination Committee

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

2. William Sunnucks MA ACA
Finance Director, 49

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

3. Xavier Pullen
Deputy Chief Executive, 54

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

4. Kenneth Ford BSc FRICS
Managing Director of Shopping Centres, 52

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

5. Andrew Lewis-Pratt BSc ARICS
Managing Director of Retail Parks and Trade Parks, 48

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

6. PY Gerbeau
Managing Director of Leisure, 40

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

7. Tom Chandos
Chairman, 53
Chairman of Nomination Committee

Tom is the Chairman of The Television Corporation plc and a non-executive director of Global Natural Energy plc and of a number of private companies. In addition to his board positions, he has worked in investment banking and alternative investment areas such as venture capital and hedge funds. He is a Labour member of the House of Lords. He was appointed as a director of the Company in 1993 and as Chairman in 2000.

8. David Cherry
Non-executive, 68
Member of Audit and Remuneration Committees

David is the former Senior Partner of Donaldsons, a national firm of commercial chartered surveyors with a significant reputation in retail property. He has wide experience in the UK property market and was head of the organisation for eight years. He was appointed as a director of the Company in 1997.

9. Hans Mautner
Non-executive, 68
Chairman of Remuneration Committee

Hans is President of the International Division of Simon Property Group (SPG), the world's largest publicly traded retail real estate company. In addition, Hans is Chairman of Simon Global Limited, SPG's London-based entity. SPG currently carries out its ownership/development in Europe through two separate entities in which it has investments: Gallerie Commerciali Italia and Simon Ivanhoe SARL. Hans is Chairman of both these organisations. Hans was appointed as a director of the Company in 2003.

10. Paul Stobart
Non-executive, 48
Chairman of Audit Committee and member of Remuneration and Nomination Committees

After qualifying as a chartered accountant with Price Waterhouse, Paul spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined The Sage Group in 1996 as Business Development Director, becoming Chief Executive Officer, UK and Ireland, in 2003. In 2001 Paul was appointed a non-executive director of Planit Holdings plc. Paul was appointed as a director of the Company in 2003.

11. Alan Coppin
Non-executive, 55
Member of Audit Committee

Alan is currently Chairman of Danoptra Limited, the leading amusement machine and leisure management group backed by Electra. His previous positions have included being Chief Executive of Wembley plc and Historic Royal Palaces. In the voluntary sector, his current appointments include the Chairmanship of the Prince's Foundation for the Built Environment and membership of the Advisory Forum of the Said Business School at Oxford University. Alan was appointed as a director of the Company in 2004.

Directors' remuneration report

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee appointed by the Board, consisting entirely of non-executive directors. During the year the members were H Mautner (Chairman), D Cherry and P Stobart.

The Committee is responsible for setting the remuneration policy for the executive directors and senior employees. The Committee determines the terms of the service agreements, salaries and discretionary bonus payments, as well as deciding on the awards to be made to all participants in the Long Term Incentive Plan and Capital Appreciation Plan. Advice from independent external advisers is obtained when required.

Remuneration policy

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

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

In order to align the interests of executive directors with the interests of shareholders, a significant proportion of directors' remuneration is performance related through the use of annual bonus and incentive schemes. Performance-related payments are deferred to aid retention, but are uncapped in line with practice in the private equity and property fund management industry. In addition, the Committee aims to achieve an appropriate balance between directors' remuneration packages and those of other key management.

Basic salaries

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

Annual bonus scheme

The Committee may award cash bonuses to the executive directors up to 100% of salary based on an assessment of their individual achievements during the year and on the Company's financial performance. During 2005, 100% bonuses were awarded to all executive directors.

Incentive schemes

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

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

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

The terms of the LTIP permit the Committee to make conditional awards of shares to participants annually with a market value not exceeding 100% of the participants' basic salary. All the executive directors together with other key executives of the Company are participants in the LTIP. A total of 333,854 shares were conditionally awarded to the participants in 2005. All LTIP awards are subject to meeting performance conditions in order to incentivise and retain key executives to increase the return on capital by aligning their interests with those of the shareholders of the Company. Details of the awards made in 2005 and a summary of the performance conditions are set out under the heading "Long Term Incentive Plan" below.

All key executives including the executive directors are participants in the CAP. The terms of the CAP permit the Committee to make awards to the participants annually that will entitle them to receive payments in aggregate of up to 30% of the performance fees receivable by the Company from The Mall, Junction and X-Leisure Funds. Awards made under the CAP are also subject to the achievement of performance conditions. In 2005, a total of £12,142,553 has been awarded to the participants, which represents 23.8% of the performance fees earned by the Company during that year. The level of CAP awards determined by the Committee took into account, inter alia, the level of cash bonuses paid to executives for the year. To the extent that the awards ultimately vest, the individual entitlements for 2005 will be reduced by 80% of the value of the shares awarded under the LTIP. Details of the awards made in respect of 2005, and a summary of the performance conditions for payment, are set out under the heading "Capital Appreciation Plan" below.

Pension arrangements

The Company makes contributions, at proportional rates to basic salary, to defined contribution pension schemes of each executive director's choice, except in the cases of M Barber, X Pullen and A Lewis-Pratt, where £56,738; £48,404 and £32,690 salary, in lieu of pension contributions, were paid to them respectively.

Other benefits

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

Service contracts

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

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

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

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

M Barber was co-Chairman of CenterPoint Properties Trust, an American company listed on the New York Stock Exchange during the year. He has retired from this position since the year end. W Sunnucks is the Chairman of Land Management Limited, a family-run company. The Company does not consider that this appointment involves significant commitment nor that the role conflicts with his duties to the Company. Any earnings received from these appointments are kept by the individuals concerned and have not been disclosed to the Company.

Non-executive directors – remuneration

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

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

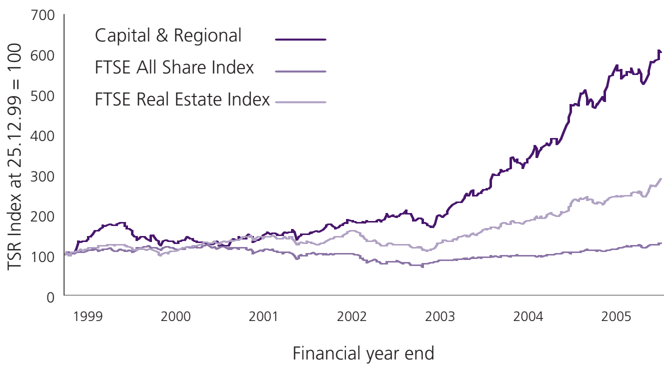
The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes.

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

Performance graph

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

Total shareholder return (TSR) for the period 25 December 1999 to 30 December 2005



Audited information

Long Term Incentive Plan

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

	LTIP awards outstanding as at 30 December 2004	Date of award	Market price on date of award (p)	Market price on date of vesting (p)[4]	End of qualifying period	**LTIP awards outstanding as at 30 December 2005**
M Barber	84,138[1]	27/12/02	310.5	700.0	31/12/04	**–**
	68,750	23/12/03	394.5		31/12/05	**68,750**
	55,000	20/4/04	500.0		31/12/06	**55,000**
			806.0		31/12/07	**39,702**[3]
X Pullen	79,459[2]	27/12/02	310.5	700.0	31/12/04	**79,459**
	65,000	23/12/03	394.5		31/12/05	**65,000**
	52,000	20/4/04	500.0		31/12/06	**52,000**
			806.0		31/12/07	**33,871**[3]
W Sunnucks	30,596[1]	27/12/02	310.5	700.0	31/12/04	**–**
	50,000	23/12/03	394.5		31/12/05	**50,000**
	40,000	20/4/04	500.0		31/12/06	**40,000**
			806.0		31/12/07	**26,055**[3]
K Ford	76,490[1]	27/12/02	310.5	700.0	31/12/04	**–**
	62,500	23/12/03	394.5		31/12/05	**62,500**
	50,000	20/4/04	500.0		31/12/06	**50,000**
			806.0		31/12/07	**32,568**[3]
A Lewis-Pratt	76,490[1]	27/12/02	310.5	700.0	31/12/04	**–**
	62,500	23/12/03	394.5		31/12/05	**62,500**
	50,000	20/4/04	500.0		31/12/06	**50,000**
			806.0		31/12/07	**32,568**[3]
PY Gerbeau	58,132[1]	27/12/02	310.5	700.0	31/12/04	**–**
	56,250	23/12/03	394.5		31/12/05	**56,250**
	45,000	20/4/04	500.0		31/12/06	**45,000**
			806.0		31/12/07	**32,568**[3]

1 Awards vested and exercised during 2005.
2 Awards vested but not exercised in 2005.
3 Shares conditionally awarded in 2005.
4 The shares vested on 18/4/05 following a Remuneration Committee meeting on that date.

A total of 405,305 shares awarded in 2002 vested during the year. All directors, with the exception of X Pullen exercised this award. In addition, during the year 136,522 shares were awarded to key executives at 806.0p; total conditional awards held by key executives at 30 December 2005 amounted to 359,358 shares.

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

The extent to which 50% of the shares conditionally awarded in 2005 and for future years, will vest is determined by reference to the level of the Group's average post-tax return on equity (ROE) for the financial years ended 30 December 2005, 2006 and 2007 ("performance period"). None of the shares will vest if the ROE is less than 10%; 20% of the shares will vest if the ROE is 10%; 100% of the shares will vest if the ROE is 18% or above. If the ROE falls between 10% and 18% the percentage of shares will vest at an incremental rate.

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

Directors' remuneration report continued

The other 50% of the shares conditionally awarded in 2005 will vest and will be linked to total shareholder return ("TSR") over the three-year performance period relative to the FTSE Real Estate Index whereby:

i) If TSR is below the median, no shares in an amount will vest;
ii) If TSR is above the median, 25% of the shares comprised in an award will vest;
iii) If TSR is in the upper quartile, 100% of the shares comprised in an award will vest; and
iv) If TSR is between median and upper quartile the shares will vest pro rata.

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

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

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

Capital Appreciation Plan

In accordance with the terms of the plan, the directors have been awarded the following interests in the performance fees receivable by the Group in respect of the financial year 2005.

The interests awarded will only be paid in full if none of the shares conditionally awarded under the LTIP in 2005 vest in 2008. The value of the initial award will be reduced pro rata to the extent that any part of the performance fees received by the Group in respect of 2005 are clawed back as a result of under-performance of the funds in 2006 or 2007. Consequently, no payments will be made in respect of the 2005 awards until 2008, when this clawback right lapses.

2005	**Interest awarded %**	**Value of initial award* £000**	**Maximum amount of offset Note 1**	**Maximum offset carried forward from previous year Note 2**
M Barber	**2.94**	**1,497**	**256**	**–**
X Pullen	**2.76**	**1,409**	**218**	**–**
K Ford	**3.11**	**1,585**	**210**	**–**
A Lewis-Pratt	**2.76**	**1,409**	**210**	**–**
W Sunnucks	**2.59**	**1,321**	**168**	**–**
PY Gerbeau	**2.42**	**1,232**	**210**	**–**
2004				
M Barber	3.79	1,183	220	–
X Pullen	3.54	1,105	208	–
K Ford	4.04	1,261	200	–
A Lewis-Pratt	3.79	1,183	200	–
W Sunnucks	2.74	855	160	–
PY Gerbeau	2.10	655	180	–

Note 1 The amount of the potential offset represents 80% of the LTIP award made in 2005; it will be reduced pro rata to the extent that the shares conditionally awarded under the LTIP do not vest in full.
Note 2 If the finally determined amount of the offset exceeds the value of the CAP award in any one year, the excess will be carried forward to be offset against future awards under the CAP. Where participants have offset carried forward from previous years this is aggregated with the maximum offset.
* The actual amount awarded is subject to clawback and minor adjustments.

In addition to the above, 31 key executives who were not directors were awarded 7.25% (2004: 4.96%) interests with a value of £3,691,138 (2004: £1,550,000). The key executives who received the interests also received LTIP awards whose maximum gross aggregate offset amounted to £753,580 (2004: £473,740).

Directors' remuneration

The remuneration of the directors who served in the year ended 30 December 2005 is analysed below:

	Salary and fees £000	**Discretionary bonus £000**	**2005 Pension contributions £000**	**Other benefits £000 (a)**	**CAP payment £000 (b,c)**	**2005 Total £000**	2004 Total £000
M Barber	**320**	**320**	**57***	**27**	**–**	**724**	626
X Pullen	**273**	**273**	**48****	**21**	**–**	**615**	586
K Ford	**263**	**263**	**39**	**21**	**19**	**605**	559
A Lewis-Pratt	**263**	**263**	**35*****	**20**	**–**	**581**	558
W Sunnucks	**210**	**210**	**26**	**21**	**–**	**467**	446
PY Gerbeau	**263**	**263**	**–**	**–**	**–**	**526**	471
D Cherry	**36**	**–**	**–**	**–**	**–**	**36**	27
T Chandos	**125**	**–**	**–**	**–**	**–**	**125**	90
P Duffy	**–**	**–**	**–**	**–**	**–**	**–**	12
P Stobart	**42**	**–**	**–**	**–**	**–**	**42**	32
H Mautner	**42**	**–**	**–**	**–**	**–**	**42**	32
A Coppin	**36**	**–**	**–**	**–**	**–**	**36**	7
Total	**1,873**	**1,592**	**205**	**110**	**19**	**3,799**	3,446

a) Other benefits include the taxable value of private medical insurance and company car, or if a director has opted out of the company car scheme, a salary supplement in lieu of a company car.
b) In respect of 2002 awards.
c) The following amounts will be paid in 2006 in connection with the 2003 CAP award; M Barber £375,000, X Pullen £361,000, K Ford £590,000, A Lewis-Pratt £297,000, W Sunnucks £103,000 and PY Gerbeau £41,000.
* £56,738 was paid to M Barber as salary in lieu of pension contributions (2004: £48,759).
** £48,404 was paid to X Pullen as salary in lieu of pension contributions (2004: £46,099).
*** £32,690 was paid to A Lewis-Pratt as salary in lieu of pension contributions. In addition, £2,500 was paid towards A Lewis-Pratt's life assurance policy which was linked to his pension (2004: £nil).

Interests in shares

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

Interests in ordinary shares and CULS

	Ordinary shares of 10p each		6.75% Convertible Subordinated Unsecured Loan Stock 2006/16	
	30 December 2005 Shares	30 December 2004 Shares	**30 December 2005 £**	30 December 2004 £
M Barber	**2,348,900**	2,354,715	**34,290**	35,394
X Pullen	**1,089,991**	1,089,991	**23,693**	23,693
W Sunnucks	**26,954**	9,185	**–**	–
K Ford	**426,512**	382,043	**–**	–
A Lewis-Pratt	**62,071**	14,153	**–**	–
PY Gerbeau	**33,761**	–	**–**	–
T Chandos	**45,000**	45,000	**5,000**	5,000
D Cherry	**5,580**	5,580	**–**	–
P Stobart	**–**	–	**–**	–
H Mautner	**38,083**	36,083	**–**	–
A Coppin	**3,350**	3,350	**–**	–

There have been no changes to the directors' interests in shares since 30 December 2005 other than M Barber who sold 40,000 ordinary 10p shares in the company on 9 January 2006 at 880p per ordinary share and T Chandos who sold 7,500 ordinary 10p shares in the company on 20 January 2006 at 885p per ordinary share.

Interests in share options

	As at 30 December 2004	Exercised	**As at 30 December 2005**	Exercise price (p)	Earliest exercise date	Latest exercise date	Exercise condition met
M Barber	50,000	–	**50,000**	211.5	13/09/03	13/09/10	Yes
X Pullen	100,000	–	**100,000**	279.5	18/05/01	18/05/08	Yes
	50,000	–	**50,000**	211.5	13/09/03	13/09/10	Yes
	150,000	–	**150,000**				
K Ford	175,000	–	**175,000**	279.5	18/05/01	18/05/08	Yes
	75,000	–	**75,000**	191.5	18/02/02	18/02/07	Yes
	50,000	–	**50,000**	211.5	13/09/03	18/09/10	Yes
	300,000	–	**300,000**				

During the year no share options were exercised.

During the year, the share price ranged from a high of 872p to a low of 658.5p. The share price as at 30 December 2005 was 868p.

No share options were granted during 2005 and no further awards will be made under these schemes to participants of the LTIP.

Approval

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

F Desai
Company Secretary
13 April 2006

Directors' report

The directors present their report together with the audited financial statements for the year ended 30 December 2005.

Results and proposed dividends
The consolidated profit and loss account is set out on page 44 and shows a loss on ordinary activities after taxation and minority interests of £3,233,000 (2004: profit £20,189,000).

The directors recommend the payment of a final dividend of 11p per ordinary share on 16 June 2006 to members on the register at the close of business on 21 April 2006, which together with an interim dividend of 7p per ordinary share, paid in 2005, makes a total dividend of 18p per share for the year.

Principal activities, trading review and future developments
The principal activity of the Group is that of a co-investing property manager.

A review of the activities and prospects of the Group is given in the Chairman's statement, the Chief and Deputy Chief Executives' review, the Finance Director's review and the operating reviews on pages 4 to 29.

Directors
The directors of the Company during the period were:

M Barber, T Chandos, D Cherry, A Coppin, K Ford, PY Gerbeau, A Lewis-Pratt, H Mautner, X Pullen, P Stobart and W Sunnucks.

D Cherry will retire from the Board at the Annual General Meeting.

In accordance with the Articles of Association, W Sunnucks PY Gerbeau, H Mautner and P Stobart will retire from the Board by rotation and offer themselves for re-election.

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

Directors' interests
The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) are interested in 4,080,202 issued shares representing 5.75% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report on page 35.

There were no contracts of significance subsisting during or at the end of the year in which a director of the Company was materially interested. No director had a material interest in the share capital of other Group companies during the year.

Share options
Details of outstanding share options granted to the directors under the 1988 and 1998 Share Option Schemes, are disclosed in the directors' remuneration report on page 35.

Substantial shareholdings
In addition to the interests of the directors, the Company has been notified pursuant to Sections 198 to 202 of the Companies Act 1985, as amended, of the following notifiable interests in its issued share capital as at 3 April 2006 (the latest practicable date prior to the issue of this report):

	Number of shares	%
Neuberger & Berman	5,549,113	7.82
Fidelity Investments	4,381,812	6.17
F&C Asset Management	4,364,270	6.15
United Nations Pensions	3,270,000	4.61
ABP Investments	3,208,675	4.52
Morley Fund Management	2,723,508	3.84
Legal & General Investment Management	2,606,265	3.67
Morgan Stanley Investment Management	2,208,725	3.11
ING Investment Management	2,170,400	3.06

Charitable donations
During the year the Group contributed £43,970 (2004: £16,848) to UK charities.

Payment of suppliers
The policy of the Company is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed, payment is usually made within one month of the receipt of the goods or service. At the year end, the Company had an average of 37 days (2004: 29 days) purchases outstanding.

Compliance with Combined Code
A statement on corporate governance is set out on pages 37 to 39.

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

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

The timetable for the 2005 final dividend is set out on page 73. Details of the terms and conditions of the Dividend Reinvestment Plan can be obtained by contacting the Company Secretary at the registered office.

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

Special business of the Annual General Meeting
Directors' authority to allot securities

Authority to allot securities, Section 80 of the Companies Act 1985, requires shareholders' authority for the directors to allot new shares or convertible securities, other than shares which may be allotted under employee share schemes. Under resolution 9, which is proposed as an ordinary resolution, the directors seek authority to allot shares having a nominal value of £2,366,682 representing one-third of the nominal value of the Company's currently issued share capital. The authority will expire at the conclusion of the Company's Annual General Meeting in 2007.

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

Authority to purchase own shares
At the Annual General Meeting in 2005, the Company was granted authority to make purchases in the market of its own shares, subject to specified limits. This authority, which has not as yet been exercised, expires at the conclusion of the Company's 2006 Annual General Meeting. Therefore by resolution 11, it is proposed as a special resolution that this authority in respect of the Company is renewed and also that the Company may cancel any bought-in shares immediately or hold them in treasury.

The authority is sought until the conclusion of the 2007 Annual General Meeting, or for 15 months after the date on which the resolution is passed, whichever is the earlier. Details of the current issued share capital are set out in note 29 to the accounts. The directors will only exercise this authority if they consider that it will result in an increase in asset value per share for the remaining shareholders and that it will be in the best interests of the Company to do so.

By order of the Board

F Desai
Company Secretary
13 April 2006

Corporate governance report

The Board of Directors is accountable to the Company's shareholders for the management and control of the Company's activities and is committed to high standards of corporate governance. This report and the directors' remuneration report set out on pages 32 to 35 describe how the Company complies with the provisions of the July 2003 Financial Reporting Council Combined Code on Corporate Governance ("the Combined Code").

Statement of compliance
The Company has complied throughout the year ended 30 December 2005, except where otherwise explained, with the provisions set out in Section 1 of the Combined Code issued by the Financial Reporting Council in July 2003.

Application of the principles
The Board of Directors
Details of the directors are set out on pages 30 and 31. The Company is controlled through the Board of Directors which comprises the Chairman, six executive and four non-executive directors. The Board recognises that its current balance does not comply with the requirements of the Code in respect of Section A.3.2 which requires at least half the Board, excluding the Chairman, to comprise independent non-executive directors. The Board and Nomination Committee are satisfied that the current Board composition provides an appropriate balance of power and authority within the Company. The Nomination Committee will however continue to review this position. All the Company's non-executive directors act independently of management and the Board considers that all the non-exective directors are independent. The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office.

P Stobart continued to serve as the Senior Independent Director as required by the Combined Code for the year ended 30 December 2005.

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

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

The responsibilities, which the Board has delegated, are given to committees that operate within specified terms of reference and authority limits, which are reviewed annually or in response to a change in circumstances. An Executive Directors' Committee, comprising the six executives, meets on a weekly basis and deals with all major decisions of the Group not requiring full Board approval or authorisation by other Board committees. The Executive Directors' Committee is quorate with four executive directors in attendance; if decisions are not unanimous the matter is referred to the Board for approval. Minutes from the Executive Directors' Committee meetings are circulated to the Board. The Audit Committee and Remuneration Committee, consist solely of non-executive directors and meet at least twice a year.

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

All members of the Board are subject to the re-election provisions in the Articles which require them to offer themselves for re-election at least once every three years and at the first Annual General Meeting ("AGM") after appointment, if appointed after the last AGM. Details of those directors offering themselves for re-appointment are set out in the directors' report on page 36.

A performance evaluation of the Board and the committees was conducted for the year ended 30 December 2005 with each director giving detailed input. The Chairman's performance is evaluated by the Senior Independent Director and the Chairman evaluates the performance of the remaining directors. The results of the appraisals are analysed and summarised by the Senior Independent Director and discussed with the Chairman. Subsequently, the results are discussed by the Board and relevant consequential changes are made. Induction training is given to all new directors appointed in the Company and consists of an introduction to the Board, onsite visits to properties managed by the Group, introduction to the divisional teams, an induction pack and access to independent advisers. The ongoing training requirements of the directors are reviewed on a regular basis and undertaken individually, as necessary, although it is recognised that all members of the Board experience continuous professional development from working together. This is achieved by virtue of the dynamic and diverse mix of the Board members, their sharing of knowledge and experiences gained from a range of commercial backgrounds, and the complement of their personal attributes to the Board.

Nomination Committee
The committee comprises T Chandos (Chairman), P Stobart and M Barber.

The Nomination Committee meets as required to select and recommend to the Board suitable candidates for both executive and non-executive appointments to the Board; the Committee does not have the authority to appoint and agree terms and conditions with the candidates. On an annual basis the Nomination Committee also considers succession planning for the Board following the yearly performance evaluation process. The Board is given an opportunity to meet the individual concerned prior to any formal decision. The terms of reference of the Nomination Committee are available for inspection at the Company's registered office.

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

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

Board meetings attendance	Scheduled meetings	Ad hoc meetings	Total attendance
T Chandos	4	5	9
M Barber	4	4	8
D Cherry	3	4	7
X Pullen	4	4	8
W Sunnucks	4	5	9
H Mautner	4	4	8
K Ford	4	4	8
PY Gerbeau	4	4	8
P Stobart	4	2	6
A Lewis-Pratt	4	4	8
A Coppin	4	3	7

There were five Audit Committee meetings during the year.

Audit Committee meetings	Attendance
D Cherry	5
P Stobart	5
A Coppin	5

There were five Remuneration Committee meetings during the year.

Remuneration Committee meetings	Attendance
P Stobart	5
D Cherry	5
H Mautner	5

Nomination Committee
The Nomination Committee did not meet during the year. However, it has met since the year end to discuss a replacement for David Cherry who will retire at the Annual General Meeting and all members were present.

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

A proportion of all executive directors' remuneration consists of cash bonuses (linked to corporate and individual performance achievements), the levels of which are determined by the Remuneration Committee. All the executive directors are eligible to participate in the Long Term Incentive Plan ("LTIP") and Capital Appreciation Plan ("CAP") which were both established on 18 December 2002. The LTIP and CAP schemes were renewed in 2005 for a further three years following shareholder consultation and approval. The fees of the non-executive directors are reviewed by the Board at regular intervals. The statement of remuneration policy and details of each director's remuneration are set out in the directors' remuneration report on pages 32 to 35.

Shareholder relations

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

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

Accountability and audit

Financial reporting

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

Internal control

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

In accordance with the guidance of the Turnbull Committee on internal control, an ongoing process has been established for identifying, evaluating and managing risks faced by the Company. This process has been in place from the start of the 2005 financial year, to the date of approval of these financial statements. Each year the Board conducts a review of the effectiveness of the current system of internal control. There is an internal control matrix in place for each division which is reviewed and updated following meetings with each divisional management team.

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

- Control documents for each area of risk which identify the key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level.
- Clearly defined organisational responsibilities and authority limits throughout the Group. The day-to-day involvement of the executive directors in the running of the business ensures that these responsibilities and limits are adhered to.
- Financial reporting to the Board including regular reports from the Fund Manager of The Mall and The Junction Funds and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.
- An Audit Committee which meets with the external auditors and deals with any significant internal control matter. In the year under review the Committee met with the external auditors on five occasions. The Audit Committee received a paper, prepared by management, on the internal controls of the Company.

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

During the year the Group has taken the first steps towards establishing an internal audit function. It has employed IRS, an experienced firm of risk surveyors, to review cash and security controls at selected locations. This falls short of a full internal audit function as the Company believes that a need for such a function does not currently exist. The development of this function remains under review by the Audit Committee.

Audit Committee

The Audit Committee consists of three non-executive directors, P Stobart (Chairman), A Coppin and D Cherry, and the terms of reference of the Audit Committee are available for inspection at the Company's registered office. The role of the Audit Committee is to maintain a relationship with the Group's external auditors and to review, in depth, the Company's financial statements, internal financial control and risk management systems and circulars to shareholders in order to monitor financial integrity within the Group. The Audit Committee is also responsible for reviewing the cost-effectiveness and the volume of non-audit services provided to the Group. The Company does not impose an automatic ban on the Group's external auditors undertaking non-audit work, and details of fees paid to the Group's external auditors are detailed on page 53 in note 7 to the accounts. The Group's aim is always to have any non-audit work involving audit firms carried out in a manner that affords value for money. The Company's policy is that the audit firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group. The Audit Committee reviews and makes recommendations to the Board for the re-appointment of the Group's external auditors. In order to maintain independence the audit partner of the Group's external auditors is subject to rotation at regular intervals. The Audit Committee meets approximately five times a year; there is one meeting to approve the audit plan and two for each of the interim and final announcements. The Chairman of the Audit Committee reports back to the Board on the key conclusions.

Going concern

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

F Desai
Company Secretary
13 April 2006

Corporate social responsibility

Over recent months we have taken a fresh look at our approach to corporate social responsibility (CSR). The work was led by the Deputy Chief Executive with input from a non-executive director.

The research exercise we undertook confirmed the importance of the subject: the majority of the 90 studies undertaken over the last few years show a clear correlation between effective management of CSR risks and value created by companies.

Accordingly, we appointed Bureau Veritas, a specialist consultancy, to help us to refine and develop our CSR strategy. We agreed with Bureau Veritas a five-stage process:

Stage 1 A benchmarking study involving:

- A review of C&R's peer group of CSR reports and public information;
- A review of CSR best practice guidance including the Association of British Insurers, Association of Chartered Certified Accountants, Global reporting Initiative, Business in the Community and a report from a property survey in which The Mall participated;
- A review of investment community criteria used for assessing CSR risks and opportunities, including FTSE4Good, Morley, Hermes, F&C and L&G; and
- Consultation with a number of investors.

Stage 2 A series of meetings with key management and staff from across the C&R business – corporate and from each of the three divisions. The aim was to understand in greater detail the activities, management systems and reporting processes that address CSR issues that were already in place.

Stage 3 Deducing from this work a framework for a new strategy which is shown in the diagram.

Stage 4 Preparation of a three-year plan prioritising actions – to be approved by the Board;

Stage 5 Preparation and implementation of a monitoring, benchmarking and evaluation process.

Stages 1, 2 and 3 have been completed and we have identified 18 priority actions that reflect expectations and requirements from different stakeholders as well as being in line with the peer sector and best practice standards. The 18 priority actions have been grouped into five themes that are easy to communicate within and outside the business.

During the process it has become clear that much is already being done. Examples are shown below:

Governance and process
Annual risk review that includes CSR issues discussed with key managers, Audit Committee and Board.

Fifteen policies in place covering issues such as human resources, health and safety, environment, share dealing.

Marketplace
450 interviews carried out by an independent research organisation interviewing consumers, marketing managers and property directors on their view of The Junction.

Environment
The Mall has reduced its carbon dioxide emissions (C02) associated with energy use by 5% during 2005 and has set a target of a further 5% reduction during 2006. This information has been used as part of a property sector benchmarking study.

Workplace
The Mall originally achieved Investor in People in 2002 and was very successfully reassessed in 2005. The business invests a great deal in people, reflected in the MPower Development Programme which offers training opportunities for all employees in a wide range of subjects and initiatives. The MPower Programme is accredited by the Institute of Leadership & Management.

Community
The Mall Cares community support programme currently assists 40 charitable causes throughout the UK.

The Mall Edgware supports two charities – The Larches Trust that provides a "day care opportunities" programme for adults who have a learning disability. Also, the North London Hospice, where support is provided to terminally ill patients, their family, friends and carers to ensure they have the help they need.

Case studies:

Workplace – health and safety

Across the Group we observe all statutory obligations in relation to health and safety, fire safety, disability discrimination, data protection and asbestos management.

We strive to continuously improve our performance in all these areas in order to deliver safe, secure environments.

For example, The Mall has within its in-house facilities management team, a dedicated National Compliance Manager, with professional background in environmental health to review The Mall's health and safety strategy and audit our systems across the business.

We have established health and safety committees at each Mall and Mall Central to ensure this remains an integral part of The Mall's corporate communications culture.

The Mall has a clearly defined and communicated health and safety policy.

A prime example is The Mall's Fire Safety DVD, produced and distributed to all Mall retailers setting out our prevention and evacuation procedures as well as assisting the retailer in their individual training and general fire safety requirements.

Further, with the imminent change in the relevant legislation, we are developing an on-line risk assessment capability to assist our retailers in complying with the new legislation.

Marketplace – regeneration and employment

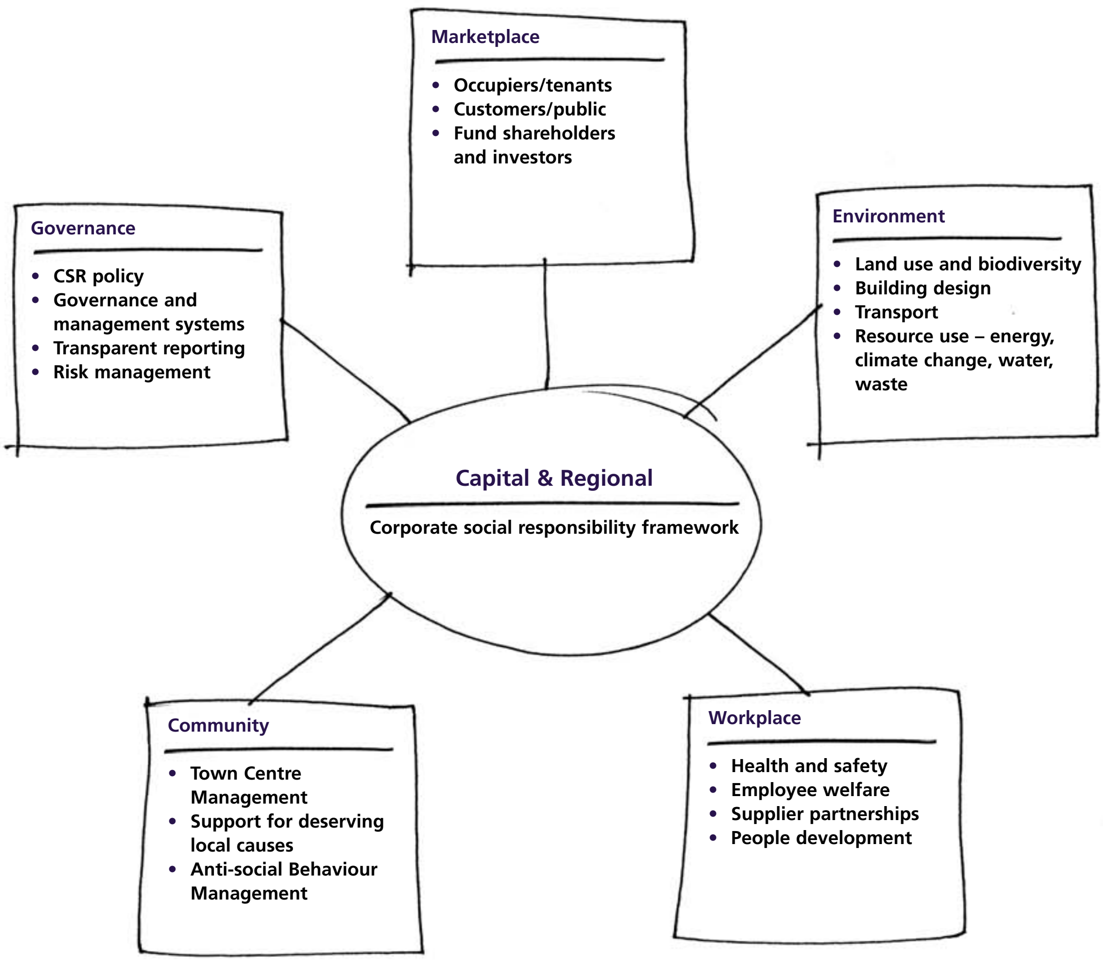
The nature of our business means that we can be the catalyst for reviving the economic vitality of an area by creating new amenities and direct and indirect employment. The majority of developments are on brownfield sites and therefore by regenerating this land area through retail-led mixed developments and leisure facilities, they become focal points for community life.

Swansea football ground

Capital & Regional worked closely with Swansea City Council to develop a 30 acre site for a mixed use development of retail and leisure but also included an innovative approach to also build a 20,000 seat stadium, on adjacent land, to be shared by Swansea Rugby and Football Clubs that opened in autumn 2005. Over 250 jobs were created during the development period, approximately 600 new jobs in the retail park and further jobs created in the stadium. The stadium has been a great success for the local community with an average of 10,000 people coming to each football game. An international football event has been held at the stadium with the potential for qualifying matches for the Euro and World Cups. The stadium will also be used for many pop concerts.

Xscape Castleford

The Xscape development in Castleford opened in 2003 as an extreme sport and leisure facility. It includes a snow slope, an outdoor skate park, bowling, cinema, restaurants, games and nightclubs. It is built on a former colliery which was left derelict. X-Leisure invested over £60 million in developing and constructing the site. This has acted as a means to regenerate and attract investment into the area and has been a major boost to employment in the area. Over 1,000 permanent staff are now estimated to be employed within the Xscape Castleford scheme by the various tenants. It won "Best Regeneration Project in 2004" at the Retail and Leisure Property Awards.



Statement of directors' responsibilities

In respect of the preparation of financial statements
United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed.

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

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

We have audited the Group and individual Company financial statements (the "financial statements") of Capital and Regional plc for the year ended 30 December 2005 which comprise the consolidated profit and loss account, the consolidated and individual Company balance sheets, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movements in equity shareholders' funds, the consolidated cash flow statement, the statement of accounting policies and the related notes 1 to 37. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice and for preparing the parent individual Company financial statements and the directors' remuneration report in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the individual Company's affairs as at 30 December 2005 and of the Group's loss for the year then ended; and
- the Group and individual Company financial statements and the part of the directors' remuneration report descibed as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
13 April 2006

Consolidated profit and loss account

For the year ended 30 December 2005

	Notes	Year to 30 December 2005 £000	364 day period to 30 December 2004 £000
Turnover: Group income and share of joint ventures' turnover		**100,571**	69,030
Less: share of joint ventures' turnover		**(6,710)**	(6,658)
Group turnover	2b,2c	**93,861**	62,372
– Existing operations		**89,131**	62,372
– Acquisitions		**4,730**	–
		93,861	62,372
Cost of sales	2c	**(10,604)**	(7,008)
Gross profit		**83,257**	55,364
Profit on sale of trading and development properties	2c,3	**2,381**	327
Exceptional Group restructuring costs		**–**	(1,994)
Other administrative expenses		**(35,891)**	(27,923)
Total administrative expenses	2c	**(35,891)**	(29,917)
Group operating profit		**49,747**	25,774
– Existing operations	2c	**46,496**	25,774
– Acquisitions	2c	**3,251**	–
		49,747	25,774
Share of operating profit in joint ventures	20c	**4,764**	4,393
Share of operating profit in associates	20b	**24,532**	26,181
Total operating profit		**79,043**	56,348
Income from other fixed asset investments		**114**	445
Profit/(loss) on sale of investment properties and investments	3	**4,292**	(1,771)
Profit on sale of investment properties in associates and joint ventures		**2,705**	13,779
Profit on ordinary activities before interest		**86,154**	68,801
Interest receivable and similar income	5	**2,179**	1,872
Interest payable and similar charges – Group	6	**(13,030)**	(7,389)
– Share of associates	6	**(26,517)**	(21,533)
– Share of joint ventures	6	**(5,263)**	(7,493)
– Exceptional premium paid on buyback of Convertible Unsecured Loan Stock	4,6	**(46,918)**	(8,217)
		(91,728)	(44,632)
(Loss)/profit on ordinary activities before taxation	7	**(3,395)**	26,041
Taxation on (loss)/profit on ordinary activities	11	**443**	(5,852)
(Loss)/profit on ordinary activities after taxation		**(2,952)**	20,189
Minority interest		**(281)**	–
(Loss)/profit on ordinary activities after taxation and attributable to the shareholders of the Company		**(3,233)**	20,189
Equity dividends paid and payable	13	**(12,553)**	(9,016)
(Loss)/profit retained in the year/period	30	**(15,786)**	11,173
(Loss)/earnings per share – basic	14	**(4.7p)**	32.2p
(Loss)/earnings per share – diluted	14	**(4.7p)**	28.4p

The results of the Group for the year/period relate to continuing operations.

Consolidated balance sheet

As at 30 December 2005

	Notes	30 December 2005 £000	30 December 2004 £000
Fixed assets			
Property assets	16	**316,959**	82,938
Other fixed assets	17	**14,443**	12,500
		331,402	95,438
Goodwill	15	**11,028**	12,179
Negative goodwill	15,19	**(10,634)**	–
		394	12,179
Total fixed assets		**331,796**	107,617
Investment in joint ventures – share of gross assets		**135,842**	150,644
– share of gross liabilities		**(86,179)**	(103,902)
	20c	**49,663**	46,742
Investments in associates	20b	**589,836**	477,092
		971,295	631,451
Current assets			
Property assets	21	**93,695**	8,314
Debtors – amounts falling due after more than one year	22	**3,261**	3,904
– amounts falling due within one year	22	**73,810**	46,350
Cash at bank and in hand	23	**40,076**	4,427
		210,842	62,995
Creditors: Amounts falling due within one year	24	**(64,103)**	(50,404)
Net current assets		**146,739**	12,591
Total assets less current liabilities		**1,118,034**	644,042
Creditors: Amounts falling due after more than one year (including convertible debt)	25	**(419,451)**	(147,674)
Provisions for liabilities and charges	28	**–**	(1,831)
Net assets		**698,583**	494,537
Capital and reserves			
Called up share capital	29,30	**7,100**	6,404
Share premium account	30	**216,826**	167,351
Revaluation reserve	30	**389,518**	247,197
Other reserves	30	**12,473**	1,145
Profit and loss account	30	**68,570**	72,440
Equity shareholders' funds	2	**694,487**	494,537
Equity minority interests		**4,096**	–
Capital employed		**698,583**	494,537
Net assets per share	31	**996p**	793p
Adjusted fully diluted net assets per share	31	**975p**	710p

The financial statements were approved by the Board of Directors and signed on their behalf on 13 April 2006 by:

M Barber
W Sunnucks

Statement of total recognised gains and losses

For the year ended 30 December 2005

	Notes	Year to 30 December 2005 £000	364 day period to 30 December 2004 £000
(Loss)/profit before tax		**(3,395)**	26,041
Exceptional items	4	**46,918**	10,211
Profit before tax and exceptional items		**43,523**	36,252
Movements in revaluation reserve – on investment properties	30	**19,232**	16,371
– on other fixed assets	30	**2,051**	280
– on joint ventures and associates	30	**133,591**	105,358
Reserve arising on the acquisition of the remaining 50% interest in Morrison Merlin	30	**9,599**	–
Total gains before tax and exceptional items		**207,996**	158,261
Tax charge before exceptional items		**(12,587)**	(8,915)
Tax on revaluation surplus realised		**(1,110)**	(6,185)
		194,299	143,161
Exceptional items	4	**(46,918)**	(10,211)
Tax on exceptional items	4	**13,030**	3,063
Exceptional items after tax	4	**(33,888)**	(7,148)
Total recognised gains and losses for the year/period	32	**160,411**	136,013
Return on equity for the year/ period	32	**30.2%**	37.0%
Return on equity before exceptional items for the year/period	32	**36.6%**	39.0%

Note of historical cost profits and losses

For the year ended 30 December 2005

	Year to 30 December 2005 £000	364 day period to 30 December 2004 £000
Reported (loss)/profit on ordinary activities before taxation	**(3,395)**	26,041
Realisation of property revaluation surplus of previous years	**1,835**	3,672
Realisation of property revaluation surplus of previous years in joint ventures and associates	**10,718**	17,326
Historical cost profit on ordinary activities before taxation	**9,158**	47,039
Historical cost (loss)/profit for year/period retained after taxation, minority interests and dividends	**(4,324)**	25,986

Reconciliation of movements in equity shareholders' funds

For the year ended 30 December 2005

	Year to 30 December 2005 £000	364 day period to 30 December 2004 £000
(Loss)/profit for the year/period after taxation attributable to shareholders of the Company	**(3,233)**	20,189
Equity dividends paid and payable	**(12,553)**	(9,016)
(Loss)/profit retained in the year/period	**(15,786)**	11,173
Other recognised gains and losses relating to year/period	**163,363**	115,824
Share capital and share premium issued in year/period (net of expenses)	**50,171**	1,870
Purchase of own shares	**–**	(3,285)
LTIP credit in respect of profit and loss charge	**2,202**	1,829
Net increase in equity shareholders' funds	**199,950**	127,411
Opening equity shareholders' funds	**494,537**	367,126
Closing equity shareholders' funds	**694,487**	494,537

Consolidated cash flow statement

For the year ended 30 December 2005

		Notes	Year to 30 December 2005 £000	364 day period to 30 December 2004 £000
Net cash inflow from operating activities		35a	**46,699**	10,950
Dividends receivable from joint ventures and associates				
Dividends received from joint ventures			**2,689**	23,852
Dividends received from associates			**3,966**	9,137
			6,655	32,989
Returns on investments and servicing of finance				
Dividends received from listed investments			**12**	474
Interest received			**675**	362
Interest paid			**(15,279)**	(10,182)
Loan arrangement costs			**(1,363)**	–
			(15,955)	(9,346)
			37,399	34,593
Taxation				
UK corporation tax paid			**(1,503)**	(10,562)
UK corporation tax recovered			**1,057**	949
			(446)	(9,613)
			36,953	24,980
Capital expenditure and financial investment				
Payments for	– additions to investment properties		**(113,299)**	(21,176)
	– additions to properties held as current assets		**(28,609)**	(1,437)
	– additions to other tangible assets		**(214)**	(300)
	– loans to joint ventures		**(199)**	–
Receipts from	– sale of investment properties		**9,178**	15,295
	– sale of properties held as current assets		**38,980**	–
	– repayment of loans by joint ventures and associates		**10,615**	15,375
			(83,548)	7,757
			(46,595)	32,737
Acquisitions and disposals				
Additions to joint ventures and associates			**–**	(20,278)
Acquisitions		19	**(21,915)**	–
Cash acquired with subsidiary undertakings			**4,120**	–
			(17,795)	(20,278)
			(64,390)	12,459
Equity dividends paid			**(10,780)**	(6,226)
Cash (outflow)/inflow before financing			**(75,170)**	6,233
Financing				
Issue of ordinary share capital			**49,643**	1,870
Purchase of own shares			**–**	(3,285)
Purchase of Convertible Unsecured Loan Stock			**(62,756)**	(12,433)
Bank loans received			**325,640**	415,182
Bank loans repaid			**(201,708)**	(407,615)
			110,819	(6,281)
Increase/(decrease) in cash		35b/c	**35,649**	(48)

Company balance sheet
As at 30 December 2005

	Notes	**30 December 2005 £000**	30 December 2004 £000
Fixed assets			
Other investments	18	**127,435**	97,831
Current assets			
Debtors – amounts falling due after more than one year	22	**–**	13,500
– amounts falling due within one year	22	**329,787**	276,613
Cash at bank and in hand		**956**	560
		330,743	290,673
Creditors: Amounts falling due within one year	24	**(162,360)**	(104,860)
Net current assets		**168,383**	185,813
Total assets less current liabilities		**295,818**	283,644
Creditors: Amounts falling due after more than one year (including convertible debt)	25	**(12,660)**	(29,172)
Net assets		**283,158**	254,472
Capital and reserves			
Called up share capital	29,30	**7,100**	6,404
Share premium account	30	**216,886**	167,411
Other reserves	30	**4,289**	4,289
Profit and loss account	30	**54,883**	76,368
Equity shareholders' funds		**283,158**	254,472

The financial statements were approved by the Board of Directors and signed on their behalf on 13 April 2006 by:

M Barber
W Sunnucks

Notes to the accounts
For the year ended 30 December 2005

1 Accounting policies

Basis of preparation
The financial statements have been prepared in accordance with applicable UK law and accounting standards and, except for the non-depreciation of investment properties referred to below, with the Companies Act 1985. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties and investments and the treatment of negative goodwill, using the following principal accounting policies. These have been applied consistently. These financial statements have been prepared for the year ended 30 December 2005. The comparative figures are for the 364 day period ended 30 December 2004.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of Capital & Regional plc and its consolidated entities, associated companies and joint ventures for the year ended 30 December 2005. Where necessary, the financial statements of associated companies and joint ventures are adjusted to conform with the Group's accounting policies. Subsidiaries have been consolidated under the acquisition method of accounting and the results of companies acquired during the year are included from the date of acquisition. The Group also acquired the remaining 50% of Morrison Merlin which it did not already own on 4 October 2005. From this date Morrison Merlin has been treated as a subsidiary and its results have been consolidated, prior to this date the Group's 50% interest had been treated as a joint venture.

The directors have not applied the one-stage method of calculating goodwill required by Schedule 4A paragraph 9 of the Companies Act as they believe this would fail to give a true and fair view. Using the method required by the Companies Act to calculate goodwill would have the effect that the gain arising on the original 50% interest in Morrison Merlin would become reclassified as negative goodwill, such that negative goodwill would have increased by £9,599,000. Therefore the directors have calculated goodwill arising from the purchase of the remaining 50% interest in Morrison Merlin, calculated as the difference between the cost of that purchase and the fair value at the date of that purchase of the identified assets and liabilities attributable to the interest purchased. The calculation related to that purchase is set out in note 19.

Goodwill
Goodwill, being the difference between the cost of businesses acquired and the fair value of their separate net assets, is included in the balance sheet as an intangible asset and is amortised over its useful economic life. Goodwill is amortised over 12.5 years, on a straight-line basis. Negative goodwill is similarly included in the balance sheet and will be credited to the profit and loss account in the period in which the acquired non-monetary assets are recovered through sale.

Joint ventures and associates
In accordance with FRS 9, "Associates and joint ventures", joint ventures are included in the accounts under the gross equity method of accounting, and associates under the net equity method.

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

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

Long leasehold land and buildings	over 50 years, on a straight-line basis.
Fixtures and fittings	over three to five years, on a straight-line basis.
Motor vehicles	over four years, on a straight-line basis.

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

The Group's policy is to value investment properties twice a year. On realisation any gain or loss is calculated by reference to the carrying value at the last financial year end balance sheet date and is included in the profit and loss account. Any balance in the revaluation reserve is transferred to the profit and loss reserve.

In accordance with SSAP 19, "Accounting for investment properties" no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years unexpired. The Companies Act 1985 requires all properties to be depreciated, but that requirement conflicts with the generally accepted principle set out in SSAP 19. Depreciation is only one of many factors reflected in the annual valuation of properties and the amount of depreciation or amortisation, which might otherwise have been charged, cannot be separately identified or quantified.

Owner-occupied long-leasehold properties
Owner-occupied long-leasehold properties are included in the financial statements at valuation less any unamortised tenant incentives. The aggregate surplus or temporary deficit below cost arising from such valuations is transferred to a revaluation reserve. Deficits that are expected to be permanent are charged to the profit and loss account.

The Group's policy is to value owner-occupied long-leasehold properties twice a year. On realisation any gain or loss is calculated by reference to the carrying value at the last financial year end balance sheet date and is included in the profit and loss account. Any balance in the revaluation reserve is transferred to the profit and loss reserve.

Notes to the accounts continued

For the year ended 30 December 2005

1 Accounting policies (continued)

Properties under development

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

Refurbishment expenditure

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

Property transactions

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

Current property assets

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

Tenant incentives

Lease incentives which enhance the property are added to the cost of properties. Where a lease incentive does not enhance the property they are held as a debtor on the balance sheet and are amortised over the period to the earlier of the first rent review, the first break option, or the end of the lease term. On new leases with rent-free periods, rental income is allocated evenly over the period from the date of the lease commencement to the date of the first rent review.

Loan arrangement costs

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

Operating leases

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

Current taxation

Current taxation is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation

Deferred tax is provided in accordance with FRS 19, "Deferred tax", on all timing differences which have originated but not reversed at the balance sheet date. Deferred tax is measured on a non-discounted basis. On disposal of a property, any provision for deferred tax no longer required will be released to the profit and loss account. Deferred tax is not provided on revaluation gains unless by the balance sheet date there is a binding agreement to sell the assets, and the gain or loss arising on sale has been recognised in the financial statements.

Pension costs

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

Long-Term Incentive Plan (LTIP)

For share schemes that contingently award shares at no cost to the participant, a charge is recognised systematically in the profit and loss account over the LTIP performance period based on the directors' estimate of the extent that the related performance criteria will be met, with a corresponding credit in the profit and loss reserve.

Own shares

In accordance with UITF 38, "Accounting for ESOP trusts" own shares held by the Group are shown as a deduction from shareholders' funds, and included in other reserves. The cost of own shares is transferred from other reserves to the profit and loss reserve systematically over the LTIP performance period. The shares are held in an Employee Share Ownership Trust.

Performance fees

Performance fees are recognised in line with the property management contracts. The 2005 performance fee is paid on 1 December 2006, but relates to outperformance during the three-year period ended on 31 December 2005.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date and, unless they relate to the hedging of the net investment in foreign operations, differences arising on translation are recognised in the profit and loss account.

1 Accounting policies (continued)

Foreign currency (continued)
The result of overseas operations are translated at the closing rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and on foreign currency borrowings, to the extent that they hedge on the Group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

2a Segmental analysis

	Property management £000	Property investment UK £000	Property investment Germany £000	Snozone £000	Exceptional items £000	**Year to 30 December 2005 Total £000**	Period to 30 December 2004 Total £000
Management fees	22,774	–	–	–	–	**22,774**	19,312
Net rents[1]	–	52,156	3,251	–	–	**55,407**	45,267
Snozone income	–	–	–	9,323	–	**9,323**	8,958
Management cost	(12,576)	(3,318)	–	(7,477)	–	**(23,371)**	(21,256)
Net interest payable	–	(40,584)	(2,162)	–	–	**(42,746)**	(34,543)
Goodwill amortisation	(1,151)	–	–	–	–	**(1,151)**	(1,151)
Recurring pre-tax profit	**9,047**	**8,254**	**1,089**	**1,846**	**–**	**20,236**	16,587
Performance fees earned by CRPM	50,956	–	–	–	–	**50,956**	31,220
Performance fee backcharge	–	(17,134)	–	–	–	**(17,134)**	(11,285)
Exceptional items	–	–	–	–	(46,918)	**(46,918)**	(10,211)
Variable management expense	(18,845)	–	–	–	–	**(18,845)**	(13,050)
Share of other non-recurring items	–	(1,068)	–	–	–	**(1,068)**	–
Profit on disposals/investments (net)	–	9,378	–	–	–	**9,378**	12,780
Profit/(loss) before taxation	**41,158**	**(570)**	**1,089**	**1,846**	**(46,918)**	**(3,395)**	26,041
Revaluation surplus	–	150,132	4,742	–	–	**154,874**	122,009
Reserve arising on the acquisition of Morrison Merlin	–	9,599	–	–	–	**9,599**	–
Taxation	(12,347)	(469)	(327)	(554)	13,030	**(667)**	(12,037)
Total return	**28,811**	**158,692**	**5,504**	**1,292**	**(33,888)**	**160,411**	136,013
Equity shareholders' funds/(deficit)	34,714	631,856	28,033	(116)	–	**694,487**	494,537
Equity minority interests						**4,096**	
Net assets						**698,583**	

2004							
Recurring pre-tax profit	7,554	7,856	–	1,177	–		16,587
Profit/(loss) before taxation	26,953	8,225	–	1,074	(10,211)		26,041
Total return	18,867	123,542	–	752	(7,148)		136,013
Net assets at 30 December 2004	38,778	453,572	–	2,187	–		494,537

2b Other required information
Group turnover

	Property management £000	Property investment UK £000	Property investment Germany £000	Snozone £000	Total £000
2005	**73,730**	**6,078**	**4,730**	**9,323**	**93,861**
2004	50,532	2,882	–	8,958	62,372

Net rents comprise the following:[1]

	Associates £000	Joint ventures £000	Wholly owned £000	Total £000
2005	**42,732**	**4,677**	**4,747**	**52,156**
2004	37,464	4,392	3,411	45,267

Turnover and operating profit all derive from operations within the United Kingdom, with the exception of the property investment in Germany. The origin and destination of turnover is not materially different.

Notes to the accounts continued

For the year ended 30 December 2005

2c Analysis of Group turnover, cost and operating profit

	Existing operations £000	Acquisitions £000	**Year ended 30 December 2005 Total £000**	Period ended 30 December 2004 Total £000
Group turnover	89,131	4,730	**93,861**	62,372
Cost of sales	(9,125)	(1,479)	**(10,604)**	(7,008)
Gross profit	80,006	3,251	**83,257**	55,364
Administration costs	(35,891)	–	**(35,891)**	(29,917)
Profit on sales of trading and investment properties	2,381	–	**2,381**	327
Group operating profit	46,496	3,251	**49,747**	25,774

Turnover and operating profit all arise from continuing operations in the prior period.

3 Asset sales

	Fixed assets		Current assets	
	Year to 30 December 2005 £000	Period to 30 December 2004 £000	**Year to 30 December 2005 £000**	Period to 30 December 2004 £000
Net sale proceeds	**9,049**	15,273	**38,980**	–
Cost of sales	**(4,757)**	(16,923)	**(36,599)**	327
Historical cost profit/(loss)	**4,292**	(1,650)	**2,381**	327
Revaluation deficit	**–**	(121)	**–**	–
Profit/(loss) on disposal	**4,292**	(1,771)	**2,381**	327

4 Exceptional items

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Exceptional Group restructuring costs[1]	**–**	1,994
Exceptional premium paid on buyback of Convertible Unsecured Loan Stock	**46,918**	8,217
Total exceptional items	**46,918**	10,211
Tax on exceptional items	**(13,030)**	(3,063)
Total exceptional items after tax	**33,888**	7,148

[1] Included within operating profit in prior period.

5 Interest receivable and similar income

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Bank interest	**486**	257
Other interest	**163**	105
	649	362
Share of joint ventures and associates	**1,530**	1,510
	2,179	1,872

6 Interest payable and similar charges

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Bank loans and overdrafts wholly repayable within five years	**12,425**	7,342
Other loans	**615**	1,612
	13,040	8,954
Capitalised during year/period	**(10)**	(1,565)
	13,030	7,389
Share of associates	**26,517**	21,533
Share of joint ventures	**5,263**	7,493
Exceptional premium paid on buy back of CULS	**46,918**	8,217
	91,728	44,632

The interest charge includes £643,000 (2004: £275,000) of loan arrangement costs amortised during the year/period.

The capitalisation rate used to determine the amount of finance costs capitalised was 5.2% (2004: 5.6%).

7 (Loss)/profit on ordinary activities before taxation

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
This is arrived at after charging/(crediting):		
Depreciation – owned assets	**337**	384
Amortisation of short-leasehold properties	**165**	268
Amortisation of intangible assets	**1,151**	1,151
Exchange gains	**(119)**	–
Amortisation of negative goodwill	**–**	(22)
Auditors' remuneration/audit services	**385**	263
Auditors' remuneration/audit services relating to prior period charged in the year	**133**	–
Auditors' remuneration/non-audit services	**59**	99
Operating lease rentals for land and buildings	**253**	300
Operating lease rentals for plant and machinery	**356**	363

Non-audit services in the year include advice on the implementation of International Financial Reporting Standards and the Royal Institute of Chartered Surveyers' compliance work.

The auditors' remuneration for the Group includes £8,000 (2004: £8,000) in respect of the parent company.

8 Performance fees

The Group is entitled to earn performance fees under its management contracts with The Mall, Junction and X-Leisure Funds.

These fees are dependent upon performance during the previous three-year period. Thus the 2005 performance will have an impact on the performance fees earned in 2006 and 2007.

Performance fees may be subject to clawback in subsequent years and any clawback would be recognised in the year in which it occurs.

9 Employee information

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

	Average number of employees	
	Year to 30 December 2005	Period to 30 December 2004
Central management	**140**	120
Snow slope business	**217**	189
Direct property services	**–**	1
	357	310

In addition, 303 people were employed by a third party and worked at the shopping and leisure centres managed by the Group (2004: 295). Their costs are recharged directly to tenants and excluded from the figures below.

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Staff costs (including directors) consist of:		
Salaries	**10,885**	10,240
Discretionary bonuses and letting commissions	**4,328**	3,563
Total salaries	**15,213**	13,803
Social security costs	**3,683**	2,675
Other pension costs	**76**	123
	18,972	16,601

10 Directors' emoluments

Details of directors' remuneration by director, details of their interests in the share capital of the Company and details of the Group's incentive schemes, are set out in the directors' remuneration report on pages 32 to 35.

11 Taxation

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Current tax		
UK corporation tax (at 30%)	**939**	7,369
Prior period/year	**458**	(1,147)
Total current tax	**1,397**	6,222
Deferred tax		
Origination and reversal of timing differences	**(1,840)**	(370)
Total taxation (credit)/charge	**(443)**	5,852
Tax reconciliation		
Group (loss)/profit on ordinary activities	**(3,395)**	26,041
Tax on (loss)/profit on ordinary activities at UK corporation tax rate of 30%	**(1,019)**	7,812
Effects of – timing differences	**3,694**	3,682
– capital allowances	**(856)**	(1,403)
– utilisation of tax losses	**–**	(3,342)
– tax on revaluation gains	**(799)**	(725)
– expenses not deductible for tax purposes	**(81)**	1,345
– adjustment in respect of prior years	**458**	(1,147)
Total current tax	**1,397**	6,222

Taxation recognised in the STRGL
The tax on revaluation surplus recognised of £1,110,000 (2004: £6,185,000) is in relation to gains arising in respect of prior period revaluations realised on disposals.

Factors affecting future tax rate
The Group expects to be able to claim capital allowances in future periods in excess of depreciation.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. The total amount unprovided is £2,715,000 (2004: £4,200,000), (note 28).

12 Profit of the holding company

The Company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 from presenting its own profit and loss account. The loss dealt within the accounts of the holding company, after dividends, for the year was £21,485,000 (2004: profit for the period after dividends £27,085,000).

13 Equity dividends paid and payable

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Interim of 7p per share paid on 14 October 2005 (2004: 5p per share)	**4,880**	3,116
Proposed final of 11p per share payable on 16 June 2006 (2004: 9p per share)	**7,673**	5,900
	12,553	9,016

14 (Loss)/earnings per share

	Year to 30 December 2005		
	(Loss) £000	**Number of shares**	**(Loss) per share**
Basic and diluted	**(3,233)**	**69,065,355**	**(4.7p)**

As the result for the year is a loss, the diluted loss per share is restricted to the basic loss per share.

	Period to 30 December 2004		
	Earnings £000	Number of shares	Earnings per share
Basic	20,189	62,727,988	32.2p
Exercise of share options	–	625,543	
Conversion of Convertible Unsecured Loan Stock	1,250	12,183,118	
Diluted	21,439	75,536,649	28.4p

The calculation includes the full conversion of the Convertible Subordinated Unsecured Loan Stock where the effect on earnings per share is dilutive. Own shares held are excluded from the weighted average number of shares.

15 Intangible assets

	Goodwill £000
Cost:	
As at 31 December 2004 and 30 December 2005	14,492
Amortisation:	
As at 31 December 2004	2,313
Charge for the year	1,151
As at 30 December 2005	3,464
Net book value	
As at 30 December 2005	**11,028**
As at 30 December 2004	12,179

Negative goodwill of £10,634,000 arose on the acquisition of the remaining 50% of Morrison Merlin Limited on 4 October 2005 (note 19). The negative goodwill will not be amortised but will be credited to the profit and loss account in the period in which the property to which it relates, is sold.

16 Property assets

	Investment properties		
	Freehold properties £000	Leasehold properties £000	Total £000
Group			
Cost or valuation:			
As at 31 December 2004	1,210	81,728	82,938
Additions – acquisitions	197,689	18,069	215,758
– others	–	503	503
Amortisation of short-leasehold properties	–	(165)	(165)
Disposals	–	(4,375)	(4,375)
Revaluation	4,153	16,306	20,459
Exchange adjustment	1,841	–	1,841
As at 30 December 2005	**204,893**	**112,066**	**316,959**
The year-end balance is analysed as follows:			
Historical cost	200,617	77,623	278,240
Revaluation surplus	4,276	34,443	38,719

During the year and as part of the restructuring of the investment in Morfa Retail Park, which is included in leasehold properties above, the Group established an Employee Share Trust. The Trust, through a Group Company, MS No2 Limited, owns a 10% interest in the equity of C&R Abertawe Limited, the company which owns Morfa Retail Park.

16 Property assets (continued)

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

	2005 £000	2004 £000
The year/period-end balance for leasehold properties is analysed as follows:		
Leasehold with more than 50 years to run	**112,066**	77,188
Leasehold with between 20 and 50 years to run	**–**	–
Leasehold with less than 20 years to run	**–**	4,540
	112,066	81,728

The net book value of property assets includes £2,464,000 (2004: £2,454,000) in respect of capitalised interest.

17 Other fixed assets

	Long leasehold land and buildings £000	Fixtures and fittings £000	Motor vehicles £000	Other investments £000	Total £000
Group					
Cost or valuation					
As at 31 December 2004	12,400	2,019	47	–	14,466
Additions	–	174	39	200	413
Disposals	–	–	(32)	–	(32)
Revaluation	1,880	–	–	–	1,880
As at 30 December 2005	**14,280**	**2,193**	**54**	**200**	**16,727**
Depreciation					
As at 31 December 2004	400	1,541	25	–	1,966
Provided for year	80	243	14	–	337
Disposals	–	–	(19)	–	(19)
As at 30 December 2005	**480**	**1,784**	**20**	**–**	**2,284**
Net book values:					
As at 30 December 2005	**13,800**	**409**	**34**	**200**	**14,443**
As at 30 December 2004	12,000	478	22	–	12,500

The long leasehold land and buildings represents the Group's head office, which was independently valued at 30 December 2005. A list of the valuers, and the basis of the valuations, are summarised in note 33.

The historical cost of the long leasehold land and buildings after depreciation is £13,140,000 (2004: £13,220,000). The lease has more than 50 years remaining.

Other investments include £150,000 4.5% Treasury Stock 2007, which are held by subsidiary entities and the company holds, at cost of £1 each, 50,055 units in the Paddington Central III Unit Trust.

18 Other investments

	Company shares in subsidiary and joint venture undertakings £000
Valuation	
As at 31 December 2004	97,831
Additions	30,380
Write down in value of investments	(776)
As at 30 December 2005	**127,435**

A list of principal subsidiaries and joint venture undertakings is given in note 37.

19 Acquisition of subsidiary undertakings

On 4 October 2005 the Company acquired a further 50% of the issued share capital of Morrison Merlin Limited for the cash consideration of £1.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £000	Revaluation £000	Other items £000	Fair value to Group £000
Current assets				
Trading property	72,500	19,544	956	93,000
Debtors	2,581	–	–	2,581
Cash	1,972	–	–	1,972
Total assets	**77,053**	**19,544**	**956**	**97,553**
Creditors				
Bank loans	(49,760)	–	–	(49,760)
Other loans	(22,490)	–	–	(22,490)
Trade creditors	(1,883)	–	–	(1,883)
Taxation	(116)	–	–	(116)
Other creditors	(2,036)	–	–	(2,036)
Total liabilities	**(76,285)**	**–**	**–**	**(76,285)**
Net assets (100%)	**768**	**19,544**	**956**	**21,268**
Negative goodwill				(10,634)
				10,634
Satisfied by				
Cash				–
Equity carrying value of initial 50% interest at 4 October 2005				1,035
Transfer to other reserve arising on acquisition[1] (note 30)				9,599
				10,634

[1] On completion of the acquisition of the 50% of Morrison Merlin not previously owned, the initial 50% investment balance was adjusted to be consistent with the fair value of 50% of Morrison Merlin's assets and liabilities, which were consolidated from that date. The difference of £9,599,000 was credited to another reserve on consolidation (note 30) as the directors have not applied the one stage method of calculating goodwill.

The profit after tax of Morrison Merlin Limited for the period from 1 April 2005 to 4 October 2005 was £765,000 and the loss after tax for the previous financial year ended 31 March 2005 was £387,000. Other items relate to adjustments to achieve consistency of accounting policies.

19 Acquisition of subsidiary undertakings (continued)

During the year the Company made a number of acquisitions, at different dates, of between 85.4% and 90% of the issued share capital of 11 German KGs for the total cash consideration of £21,915,000.

	Book value £000	Revaluation £000	Fair value to Group £000
Fixed assets	98,825	13,518	112,343
Current assets			
Debtors	1,196	–	1,196
Cash	2,148	–	2,148
Total assets	**102,169**	**13,518**	**115,687**
Creditors			
Bank loans	(88,512)	–	(88,512)
Trade creditors	(1,295)	–	(1,295)
Taxation	(563)	–	(563)
Other creditors	(251)	–	(251)
Total liabilities	**(90,621)**	–	**(90,621)**
Net assets	**11,548**	**13,518**	**25,066**
Less minority interest			(3,151)
Capital & Regional share of fair value			21,915
Satisfied by			
Cash			21,915

As at 30 December 2005 the Group's weighted average share of these KGs was 87.43%. These business combinations have been accounted for as acquisitions.

20a Associates and joint ventures

Share of operating profit

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Associates	**24,532**	26,181
Joint ventures	**4,764**	4,393
	29,296	30,574

20b Investment in associates

	2005 £000	2004 £000
At the beginning of the year/period	**477,092**	372,676
Subscription for partnership capital and advances	**3,538**	4,222
Dividends and capital distributions receivable	**(13,071)**	(4,232)
Share of results (see below)	**(25)**	5,995
Share of property revaluation surplus (see below)	**122,302**	97,358
Share of fair value adjustments upon restructuring	**–**	1,073
At the end of the year/period	**589,836**	477,092

Analysis of investment in associates:

	The Mall LP £000	The Junction LP £000	X-Leisure* LPs £000	**Total to 30 December 2005 £000**	Total to 30 December 2004 £000
Profit and loss account (100%)					
Turnover	154,338	46,517	42,858	**243,713**	193,344
Property expenses	(27,941)	(2,080)	(4,253)	**(34,274)**	(24,683)
Net rental income	126,397	44,437	38,605	**209,439**	168,661
Fund and property management expenses	(10,088)	(6,820)	(3,809)	**(20,717)**	(18,452)
Performance fee	(41,381)	(23,040)	(5,185)	**(69,606)**	(43,115)
Administrative expenses	(7,733)	(1,670)	(440)	**(9,843)**	(5,318)
Share of joint ventures' operating profit	–	–	–	**–**	3,222
Operating profit	67,195	12,907	29,171	**109,273**	104,998
Sale of investment properties	1,740	409	89	**2,238**	–
Net interest payable	(54,621)	(29,197)	(24,517)	**(108,335)**	(81,906)
Profit/(loss) before and after tax	14,314	(15,881)	4,743	**3,176**	23,092
Balance sheet (100%)					
Investment properties and joint ventures	2,333,697	1,440,660	700,633	**4,474,990**	3,690,654
Current assets	162,255	50,685	26,174	**239,114**	196,396
Current liabilities	(100,338)	(46,623)	(35,304)	**(182,265)**	(491,597)
Borrowing due in more than one year	(1,055,301)	(684,121)	(390,893)	**(2,130,315)**	(1,543,315)
Net assets (100%)	**1,340,313**	**760,601**	**300,610**	**2,401,524**	**1,852,138**
C&R interest at end of year	26.12%	27.32%	10.72%		
C&R interest at start of year	27.86%	27.32%	10.77%		
Group share of					
Turnover	40,948	12,709	4,666	**58,323**	51,085
Operating profit	17,828	3,526	3,178	**24,532**	26,181
Sale of investment properties	462	111	10	**583**	–
Net interest payable	(14,493)	(7,977)	(2,670)	**(25,140)**	(20,186)
Profit/(loss) before and after tax	3,797	(4,340)	518	**(25)**	5,995
Revaluation surplus for the year/period	58,947	57,702	5,653	**122,302**	97,358
Investment properties and joint ventures	609,562	393,589	75,108	**1,078,259**	920,857
Current assets	42,381	13,846	2,806	**59,033**	49,788
Current liabilities	(26,208)	(12,737)	(3,784)	**(42,729)**	(75,858)
Borrowing due in more than one year	(275,645)	(186,902)	(41,904)	**(504,451)**	(417,419)
Associate net assets	350,090	207,796	32,226	**590,112**	477,368
Unrealised profit on sale of property to associate	(276)	–	–	**(276)**	(276)
Group share of associate net assets	349,814	207,796	32,226	**589,836**	477,092

* On 17 March 2004, the three X-Leisure funds were consolidated into one umbrella fund. At that date Capital & Regional's share of the new umbrella fund was 10.77%.

20c Investment in joint ventures

	2005 £000	2004 £000
At the beginning of the year/period	**46,742**	56,492
Subscription for partnership capital and advances	**–**	11,189
Dividends and capital distributions receivable	**(3,925)**	(39,082)
Acquisition of Morrison Merlin Limited from a joint venture to a subsidiary entity	**(6,197)**	–
Share of results (see below)	**1,776**	10,843
Share of taxation and minority interests (see below)	**(22)**	(700)
Share of property revaluation surplus (see below)	**11,289**	8,000
At the end of the year/period	**49,663**	46,742

Analysis of investment in joint ventures

	Xscape Milton Keynes Partnership £000	Xscape* Castleford Partnership £000	Xscape Braehead Partnership £000	Others £000	**Total to 30 December 2005 £000**	Total to 30 December 2004 £000
Profit and loss account (100%)						
Turnover	4,841	2,755	–	4,907	**12,503**	12,641
Property expenses	(353)	(1,117)	–	(1,702)	**(3,172)**	(3,936)
Net rental income	4,488	1,638	–	3,205	**9,331**	8,705
Fund and property management expenses	(100)	–	–	–	**(100)**	(200)
Administrative expenses	(140)	(14)	(4)	(84)	**(242)**	(172)
Operating profit/(loss)	4,248	1,624	(4)	3,121	**8,989**	8,333
Sale of investment properties	–	–	–	4,244	**4,244**	27,555
Net interest payable	(3,013)	(3,144)	–	(3,017)	**(9,174)**	(13,615)
Profit/(loss) before tax	1,235	(1,520)	(4)	4,348	**4,059**	22,273
Tax	–	–	–	(44)	**(44)**	(1,400)
Profit/(loss) after tax	1,235	(1,520)	(4)	4,304	**4,015**	20,873
Balance sheet (100%)						
Investment properties	97,397	70,981	50,764	–	**219,142**	161,080
Current assets	3,655	4,398	6,099	13,201	**27,353**	116,670
Current liabilities	(3,092)	(7,562)	(5,743)	(6,218)	**(22,615)**	(34,267)
Borrowing due in more than one year	(46,800)	(45,616)	(39,620)	–	**(132,036)**	(157,215)
Net assets (100%)	51,160	22,201	11,500	6,983	**91,844**	86,268
C&R interest at start and end of year	50%	66.7%	50%			
Group share of						
Turnover	2,420	1,837	–	2,453	**6,710**	6,658
Operating profit/(loss)	2,124	1,083	(2)	1,559	**4,764**	4,393
Sale of investment properties	–	–	–	2,122	**2,122**	13,778
Net interest payable	(1,506)	(2,095)	–	(1,509)	**(5,110)**	(7,328)
Profit/(loss) before tax	618	(1,012)	(2)	2,172	**1,776**	10,843
Tax	–	–	–	(22)	**(22)**	(700)
Profit/(loss) after tax	618	(1,012)	(2)	2,150	**1,754**	10,143
Revaluation surplus for the year/period	6,614	3,172	1,503	–	**11,289**	8,000
Investment properties	48,699	47,344	25,382	–	**121,425**	91,460
Current assets	1,827	2,941	3,050	6,599	**14,417**	59,184
Current liabilities	(1,546)	(5,059)	(2,872)	(3,066)	**(12,543)**	(17,293)
Borrowing due in more than one year	(23,400)	(30,426)	(19,810)	–	**(73,636)**	(86,609)
Group share of joint venture net assets	25,580	14,800	5,750	3,533	**49,663**	46,742

A list of valuers and the basis of the valuation are summarised in note 33. The joint ventures all operate in the UK.

* Capital & Regional plc has a 66.7% share in the Xscape Castleford Partnership. The investment is accounted for as a joint venture, rather than a subsidiary, as a result of joint control and the deadlock agreements that are in place.

21 Current property assets

	Group 2005 £000	Group 2004 £000
Properties held for disposal	**93,668**	8,311
Properties under development	**27**	3
	93,695	8,314

The net book value of current property assets includes £nil (2004: £384,000) in respect of capitalised interest.

22 Debtors

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Amounts falling due after more than one year				
Amounts owed by subsidiaries	**–**	–	**–**	13,500
Prepayments	**3,261**	3,904	**–**	–
	3,261	3,904	**–**	13,500
Amounts falling due within one year				
Trade debtors	**2,417**	1,838		–
Amounts owed by subsidiaries	**–**	–	**327,650**	274,806
Amounts owed by joint ventures	**352**	376	**45**	42
Amounts owed by associates	**54,358**	36,908	**–**	–
Other debtors	**14,062**	1,586	**45**	–
Tax recoverable	**846**	1,881	**–**	–
Deferred tax asset (note 28)	**9**	–	**–**	–
Prepayments and accrued income	**1,766**	3,761	**2,047**	1,765
	73,810	46,350	**329,787**	276,613

23 Cash at bank and in hand

Cash at bank includes £1,491,000 (2004: £212,000) specifically held as security deposits and retained in rent accounts.

24 Creditors: Amounts falling due within one year

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Bank loans (secured) (note 27)	**200**	109	**146**	109
Amounts owed to subsidiaries	**–**	–	**153,542**	98,288
Amounts owed to joint ventures	**–**	22	**–**	–
Trade creditors	**2,634**	1,494	**–**	106
Other creditors	**4,716**	3,306	**459**	342
Corporation tax	**13,714**	12,158	**442**	–
Other taxation and social security	**8,787**	3,373	**–**	14
Accruals and deferred income	**26,379**	24,042	**98**	101
Proposed dividends	**7,673**	5,900	**7,673**	5,900
	64,103	50,404	**162,360**	104,860

25 Creditors: Amounts falling due after more than one year

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Bank loans (secured) (note 27)	**396,469**	118,039	**8,600**	8,800
Unamortised issue costs	**(826)**	(195)	**–**	–
	395,643	117,844	**8,600**	8,800
Convertible Subordinated Unsecured Loan Stock (note 26)	**4,060**	20,426	**4,060**	20,426
Unamortised issue costs	**–**	(54)	**–**	(54)
	4,060	20,372	**4,060**	20,372
Other creditors	**19,748**	9,458	**–**	–
	419,451	147,674	**12,660**	29,172

26 Convertible Subordinated Unsecured Loan Stock

	Group and Company	
	2005	2004
	£000	£000
At beginning of the year/period	**20,426**	24,642
CULS purchased and cancelled in the year/period	**(16,366)**	(4,216)
	4,060	20,426
Unamortised loan issue costs due after one year	**–**	(54)
	4,060	20,372
Unamortised loan issue costs due within one year	**–**	(91)
	4,060	20,281

The Convertible Subordinated Unsecured Loan Stock ("CULS") may be converted by the holders of the stock into 51.42 (2004: 51.42) ordinary shares per £100 nominal value CULS in any of the years 1997 to 2015 inclusive, representing a conversion price of 194p (2004: 194p) per ordinary share. The Company has the right to redeem at par the CULS in any year from 2006 to 2016. The CULS are unsecured and are subordinated to all other forms of unsecured debt but rank in priority to the holders of the ordinary shares in the Company. The CULS carry interest at an annual rate of 6.75%, payable in arrears on 30 June and 30 December in each year.

In accordance with FRS 4, "Financial Instruments", the CULS are shown net of unamortised loan issue costs.

27 Financial instruments

The Group normally raises bank debt on a floating rate basis and fixes a substantial portion of the interest payments by entering into interest rate swaps. The disclosures set out below exclude short-term debtors and creditors as permitted by FRS 13, "Derivatives and financial instruments".

The Group's only financial asset is cash of £40,076,000 (2004: £4,427,000). Cash is held at bank and on short-term deposits of up to one week and attracts interest at rates based on LIBOR.

The interest rate profile of the Group's financial liabilities is as follows:

	2005 £000	**Weighted average interest rate**	**Weighted average period years**	2004 £000	Weighted average interest rate	Weighted average period years
CULS	**4,060**	**6.75%**	**10.3**	20,426	6.75%	11.4
Fixed and swapped bank loans	**219,212**	**4.61%**	**3.1**	79,250	5.27%	2.5
Variable rate bank loans	**177,457**	**5.13%**	**n/a**	38,989	5.99%	n/a
Group borrowings on balance sheet	**400,729**	**4.86%**		138,665	5.69%	

The bank loans are secured on the Group's interest in The Mall Limited Partnership, The Junction Limited Partnership and on specific properties.

27 Financial instruments (continued)

The bank loans are repayable as follows:

	2005 £000	2004 £000
Aggregate amount repayable:		
Between one and two years	**25,500**	–
Between two and five years	**370,969**	118,039
Total loans due after more than one year	**396,469**	118,039
Loans due in one year or less or on demand	**200**	200
Total loans	**396,669**	118,239

	2005 Euro loans €000	2005 Sterling loans £000	2004 Sterling loans £000
Fixed	**37,910**	**–**	–
Variable	**49,117**	**144,050**	38,989
Swapped	**111,377**	**116,750**	79,250
	198,404	**260,800**	118,239
Sterling equivalent of Euro denominated loans at 30 December 2005		**135,869**	–
Total loans		**396,669**	118,239
Weighted average interest rate of fixed rate and swapped loans	**3.81%**	**5.38%**	5.27%
Weighted average interest margin for variable loans	**1.20%**	**0.90%**	1.12%
Weighted average period for which interest rates are fixed and swapped	**55 months**	**20 months**	42 months

During 2004 all loans were denominated in sterling. Variable rate loan interest rates are based on three-month LIBOR.

A valuation was carried out by JC Rathbone Associates Limited as at 30 December 2005 and 30 December 2004 to calculate the market value of the fixed rate instruments on a replacement basis. The table below shows the book value and fair value of the Group's fixed rate and debt instruments, its share of those in joint ventures and associates.

	Book value £000	Fair value £000	Fair value adjustment 2005 £000	Fair value adjustment 2004 £000
CULS	4,060	4,060	**–**	–
Fixed and swapped loans – on balance sheet	219,212	217,541	**1,671**	1,242
– Group share of associates	478,917	485,912	**(6,995)**	(810)
– Group share of joint ventures	45,235	45,444	**(209)**	(110)
Total interest rate swaps			**(5,533)**	322
Net of tax at 30% (2004: 30%)			**(3,873)**	225

At 30 December 2005 the Group had undrawn facilities of £107 million (30 December 2004: £53.5 million), which expire greater than two years from the balance sheet date.

28 Provision for liabilities and charges

Deferred taxation

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

	Provided 2005 £000	Provided 2004 £000	**Not provided 2005 £000**	Not provided 2004 £000
Tax on capital gains if investment assets were sold at their current valuation	**–**	–	**2,715**	4,200
Capital allowances	**6,802**	5,807	**–**	–
Other timing differences	**(6,811)**	(3,976)	**–**	–
	(9)	1,831	**2,715**	4,200

The movements in deferred tax provided for the year/period were:

	Provided 2005 £000	Provided 2004 £000
At the beginning of the year/period	**1,831**	2,201
Credit in year/period	**(1,840)**	(370)
At the end of year/period	**(9)**	1,831

The amount of deferred tax unprovided is net of an unprovided deferred tax asset of £1,045,000 (2004: £nil) in respect of tax losses carried forward.

A significant part of the Group's property interests has been transferred offshore. In addition, the Auchinlea partnership has sold its interest in Glasgow Fort and the Swansea Retail Park investment has been restructured. The Group has been advised that no capital gains tax liability arises on these transactions, although the relevant computations have yet to be agreed.

If a provision was made for deferred taxation that has not been provided it would have an adverse effect on net assets per share of 4p (2004: 7p) and on fully diluted net assets per share of 4p (2004: 6p).

29 Called up share capital

	Number of shares issued and fully paid		Nominal value of shares issued and fully paid	
	2005 Number	2004 Number	**2005 £000**	2004 £000
Ordinary shares of 10p each				
At beginning of year/period	**64,039,578**	63,112,003	**6,404**	6,311
New share issues	**6,560,000**	–	**656**	–
Issued on exercise of share options	**128,950**	927,575	**13**	93
Issued on conversion of CULS	**271,937**	–	**27**	–
At end of year/period	**71,000,465**	64,039,578	**7,100**	6,404

	Authorised	
	2005	2004
Ordinary shares of 10p each	**150,000,000**	150,000,000

During the year the Company allotted 6,560,000 ordinary shares with a nominal value of £656,000 at a premium of £49,128,000 for cash consideration of £49,784,000.

At 30 December 2005, 1,244,771 (2004: 1,688,411) shares were held by an Employee Share Ownership Trust. The market value of these shares was £10,804,612 (2004: £11,734,456). The rights to receive dividends on these shares has been waived.

The options to subscribe for new ordinary shares of 10p each under the share option schemes that were outstanding at 30 December 2005 are as follows:

	30 December 2005	
	Number of shares	**Subscription price**
Period within which options are exercisable:		
18 June 2000 to 18 June 2007	**13,151**	**226.4p**
15 May 2001 to 15 May 2008	**339,500**	**279.5p**
22 May 2001 to 22 May 2008	**10,470**	**286.5p**
23 February 2002 to 23 February 2009	**130,000**	**191.5p**
22 February 2003 to 22 February 2010	**10,000**	**201.5p**
13 September 2003 to 13 September 2010	**150,000**	**211.5p**
	653,121	

30 Reserves

	Share capital £000	Share premium account £000	Property revaluation reserve £000	Reserve arising on acquisition[1] £000	Capital redemption reserve[1] £000	Own shares[1] £000	Profit and loss account £000	Total £000
Group								
As at 31 December 2004	6,404	167,351	247,197	–	4,289	(3,144)	72,440	494,537
Issue of share capital	696	49,475	–	–	–	–	–	50,171
Revaluation of investment properties and other fixed assets	–	–	21,283	–	–	–	–	21,283
Share of revaluation surplus of joint ventures and associates	–	–	133,591	–	–	–	–	133,591
Realisation of surplus on disposal of investment properties and dilution of interest in associates	–	–	(12,553)	–	–	–	12,553	–
Gain arising on the acquisition of the remaining 50% interest in Morrison Merlin (note 19)	–	–	–	9,599	–	–	–	9,599
Tax on revaluation surpluses realised in the year	–	–	–	–	–	–	(1,110)	(1,110)
Credit in respect of LTIP charge	–	–	–	–	–	–	2,202	2,202
Amortisation of cost of own shares	–	–	–	–	–	1,729	(1,729)	–
Retained loss for the year	–	–	–	–	–	–	(15,786)	(15,786)
As at 30 December 2005	**7,100**	**216,826**	**389,518**	**9,599**	**4,289**	**(1,415)**	**68,570**	**694,487**

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Company					
As at 31 December 2004	6,404	167,411	4,289	76,368	254,472
Issue of share capital	696	49,475	–	–	50,171
Retained loss for the year	–	–	–	(21,485)	(21,485)
As at 30 December 2005	**7,100**	**216,886**	**4,289**	**54,883**	**283,158**

[1] Shown as other reserves on the face of the balance sheet.

31 Net assets per share

	As at 30 December 2005		
	Net assets £000	**Number of shares**	**Net assets per share**
Equity shareholders' funds as per balance sheet	**694,487**	**71,000,465**	
Own shares held	**–**	**(1,244,771)**	
Net assets per share	**694,487**	**69,755,694**	**996p**
Conversion of CULS (net of unamortised issue costs)	**4,006**	**2,087,784**	
Exercise of share options	**1,595**	**653,121**	
Capital allowances deferred tax provision	**6,802**	**–**	
Adjusted fully diluted	**706,890**	**72,496,599**	**975p**

	As at 30 December 2004		
	Net assets £000	Number of shares	Net assets per share
Equity shareholders' fund as per the balance sheet	494,537	64,039,578	
Own shares held	–	(1,688,411)	
Net assets per share	494,537	62,351,167	793p
Conversion of CULS (net of unamortised issue costs)	20,281	10,503,109	
Exercise of share options	1,897	782,071	
Capital allowances deferred tax provision	5,807	–	
Adjusted fully diluted	522,522	73,636,347	710p

Net assets per share are shareholders' funds divided by the number of shares held by shareholders at the year end. The shares held by the Group's employee benefits trust (own shares held) are excluded from both net assets and the number of shares.

Adjusted fully diluted net assets per share includes the effect of those shares potentially issuable under the CULS or employee share options. The capital allowances deferred tax provision is added back.

32 Return on equity

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Total recognised gains and losses	**160,411**	136,013
Equity shareholders' funds	**530,857**	367,126
Return on equity	**30.2%**	37.0%
Exceptional items (net of tax at 30%)	**33,888**	7,148
Total recognised gains and losses before exceptional items	**194,299**	143,161
Return on equity before exceptional items	**36.6%**	39.0%

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

33 Valuations

The properties were valued at 30 December 2005, as follows:

	Valuer	Basis of valuation	£000
Group properties			
	CB Richard Ellis Limited	Market value	68,751
	Directors' valuations	Market value	220
	DTZ Debenham Tie Leung	Market value	135,923
	King Sturge	Market value	116,348
Less unamortised tenant incentives			(4,283)
Total fixed property assets (as per balance sheet)			316,959
Other fixed assets	DTZ Debenham Tie Leung	Existing use	13,800
Total property assets			330,759
Properties held by joint ventures			
Xscape Milton Keynes Partnership	DTZ Debenham Tie Leung	Market value	97,615
Xscape Castleford Partnership	DTZ Debenham Tie Leung	Market value	73,500
Xscape Braehead Partnership	DTZ Debenham Tie Leung	Market value	53,500
Properties held by associates			
The Mall Limited Partnership	DTZ Debenham Tie Leung	Market value	2,337,800
The Junction Limited Partnership	King Sturge	Market value	1,459,133
X-Leisure Limited Partnership	Jones Lang LaSalle	Market value	701,600

The independent property valuations as at 30 December 2005, were performed by qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors; King Sturge, Chartered Surveyors; CB Richard Ellis Limited, Chartered Surveyors; and Jones Lang LaSalle, Chartered Surveyors. The properties were valued on the basis of market value, with the exception of 10 Lower Grosvenor Place, London SW1, which was appraised on the basis of existing use value. There is no material difference between the existing use value and market value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards.

34 Commitments

a) Annual commitments under non-cancellable operating leases which expire:

	Land and buildings		Other operating leases	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Within one year	**–**	–	**334**	129
Between two and five years	**–**	–	**180**	184
After five years	**109**	300	**–**	–
	109	300	**514**	313

b) As at 30 December 2005 the Group had capital commitments of £nil (2004: £nil).

c) As at 30 December 2005 the Group's share of capital commitments of joint ventures and associates was £151,572,000 (2004: £nil), principally relating to The Mall Fund's commitment to acquire a portfolio of four shopping centres from the Prudential. These centres were acquired by The Mall Fund on 6 January 2006.

35 Notes to the cash flow statement

a) Net cash inflow from operating activities

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Group operating profit	**49,747**	25,774
Profit on the sale of the trading and development properties	**(2,381)**	(327)
	47,366	25,447
Depreciation of other fixed assets	**337**	384
Amortisation of short-leasehold properties	**165**	268
Amortisation of tenant incentives	**1,485**	(763)
Amortisation of goodwill	**1,151**	1,151
Loss on disposal of fixed assets	**12**	1
Increase in debtors	**(23,792)**	(29,538)
Increase in creditors	**17,773**	12,169
Non-cash movement relating to LTIP	**2,202**	1,831
Net cash inflow from operating activities	**46,699**	10,950

b) Reconciliation of net cash flow movement in net debt

	Year to 30 December 2005 £000	Period to 30 December 2004 £000
Increase/(decrease) in cash in year/period	**35,649**	(48)
Cash inflow from increase in debt financing	**(108,095)**	(3,351)
Change in net debt resulting from cash flows	**(72,446)**	(3,399)
Other non-cash movements including acquisitions and disposals	**(152,128)**	–
Exchange movements	**(1,841)**	–
Net debt at beginning of year/period	**(134,238)**	(130,839)
Net debt at end of year/period	**(360,653)**	(134,238)

c) Analysis of net debt

	At 30 December 2004 £000	Cash-flows £000	Acquisitions and disposals* £000	Non-cash movements £000	Exchange movements £000	**At 30 December 2005 £000**
Cash in hand and at bank	4,427	35,649	–	–	–	**40,076**
Debt due within one year	(200)	–	–	–	–	**(200)**
Debt due after one year	(118,039)	(123,932)	(152,657)	–	(1,841)	**(396,469)**
Convertible Unsecured Loan Stock	(20,426)	15,837	–	529	–	**(4,060)**
	(138,665)	(108,095)	(152,657)	529	(1,841)	**(400,729)**
Total	(134,238)	(72,446)	(152,657)	529	(1,841)	**(360,653)**

* Excluding cash and overdrafts.

36 Related party transactions

The Group's principal transactions with related parties, being its associates and joint ventures, as defined by Financial Reporting Standard No. 8, "Related party transactions", are summarised below:

During 2005 the Group received management and performance fees totalling £22,663,000 from The Junction Limited Partnership (2004: £11,762,000). As at 30 December 2005 £17,712,000 (2004: £8,085,000) was outstanding in respect of these fees.

During 2005, the Group received management fees from Auchinlea Partnership of £nil (2004: £216,000). As at 30 December 2005 £nil (2004: £(21,000)) was (owed)/outstanding in respect of these fees.

During 2005 the Group received management and performance fees totalling £40,764,000 (2004: £32,370,000) from The Mall Limited Partnership. As at 30 December 2005 £29,738,000 (2004: £25,786,000) was outstanding in respect of these fees.

During 2005 the Group received management and performance fees totalling £8,750,000 (2004: £4,850,000) from the X-Leisure Limited Partnership. As at 30 December 2005 £4,297,000 (2004: £3,095,000) was outstanding in the respect of these fees.

During 2005 the Group received management fees from Xscape Milton Keynes Partnership of £185,000 (2004: £378,000) and Xscape Castleford Partnership of £200,000 (2004: £257,000). As at 30 December 2005 £46,850 (2004: £94,000) and £25,000 (2004: £141,000) respectively was outstanding in respect of these fees.

During 2005 the Group received management fees from Xscape Braehead Partnership of £438,000 (2004: £145,000). As at 30 December 2005 £nil (2004: £86,000) was outstanding in respect of these fees.

During 2005 the Group received management fees from Morrison Merlin Limited of £322,000 (2004: £nil). As at 30 December 2005 £nil (2004: £nil) was outstanding in respect of these fees.

All the above transactions occurred at normal commercial rates.

Other related party transactions:

During 2004 and 2005 Cine UK Limited leased five of the Group's properties on normal commercial terms. Tom Chandos is a director and shareholder of Cine UK Limited. Martin Barber was a shareholder of Cine UK Limited until October 2004.

During 2004 and 2005 the Group employed gcg hudson sandler for financial PR and corporate communications on normal commercial terms. Tom Chandos was a director of gcg hudson sandler until June 2004.

37 Subsidiary joint venture and associated undertakings at 30 December 2005

Principal subsidiaries, joint ventures and associated companies	Nature of property business	Group effective share of business	Share of voting rights
Capital & Regional Property Management Limited[3]	Management	100%	100%
The Mall Jersey Property Unit Trust[4]	Investment	26.12%	26.12%[1]
The Junction Jersey Property Unit Trust[4]	Investment	27.32%	27.32%[1]
X-Leisure Jersey Property Unit Trust[4]	Investment	10.72%	10.72%[1]
The Auchinlea Partnership[3]	Investment	50%	50%
Capital & Regional Abertawe Limited[3]	Investment and management	100%	100%
Trade Park Unit Trust[4]	Investment and management	100%	100%
Capital & Regional Hemel Hempstead Limited[3]	Investment and management	100%	100%
Capital & Regional (Europe LP) Limited[4]	Investment and management	100%	100%
Capital & Regional (Europe LP 2) Limited[4]	Investment and management	100%	100%
Capital & Regional (Europe LP 3) Limited[4]	Investment and management	100%	100%
Xscape Milton Keynes Jersey Property Unit Trust[4]	Investment and management	50%	50%
Xscape Castleford Jersey Property Unit Trust[4]	Investment and management	66.67%	50%[2]
Xscape Braehead Partnership[3]	Development	50%	50%
Snozone Limited[3]	Trading	100%	100%
Morrison Merlin Limited[3]	Trading	100%	100%

[1] Capital & Regional is regarded as having significant influence through its membership of and role on the General Partner Board.
[2] Capital & Regional treats this entity as a joint venture rather than a subsidiary entity, despite owning 66.67%. This is as a result of joint control and deadlock agreements that are in place.

The subsidiary and joint ventures companies are incorporated in, and operate in, Great Britain[3] and Jersey[4]. Investment in joint ventures and associates are set out within note 20.

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

Portfolio information

Property under management

	28 February 2006 £m	**30 December 2005 £m**	30 December 2004 £m
Investment properties	320	**320**	83
Trading properties	94	**94**	8
The Mall Fund	2,790	**2,338**	2,099
The Junction Fund	1,467	**1,459**	1,010
X-Leisure Fund	717	**702**	597
Other joint ventures	226	**226**	226
Total	5,614	**5,139**	4,023

Fund portfolio information

At 30 December 2005

	Mall Fund	Junction Fund	X-Leisure Fund
Number of core properties	21	19	17
Number of lettable units	2,118	258	291
Square feet (000)	6,822	3,920	3,009
Properties at market value[1]	£2,338m	£1,459m	£702m
Initial yield %	5.09%	*3.47%	5.68%
Equivalent yield %	5.73%	4.86%	6.32%
Vacancy rate	2.80%	4.90%	1.40%
Net rental income (£m per annum)	£125.8m	£55.2m	£42.1m
Estimated rental value (£m per annum)	£152.6m	£75.2m	£47.3m
Rental increase (ERV)	4.86%	**14.38%	1.84%
Reversionary %	11.48%	18.98%	7.96%
Loan to value ratio	45.5%	47.00%	56.24%
Underlying valuation change since 30 December 2004	9.80%	18.30%	9.30%
Property level return	16.52%	23.30%	15.30%
Geared return	22.80%	34.08%	28.30%
Unit price (£1.00 at inception)	£2.0464	£2.4904	£1.4050
C&R share	26.12%	27.32%	10.72%

* 3.71% excluding development land

** 6.00% like for like rental growth

[1] Properties at market value include tenant incentives which are transferred to current assets for accounting purposes.

Five-year review

for the periods 25 December 2001 to 30 December 2005

	25 December 2001 £m	31 December 2002 £m	31 December 2003 £m	30 December 2004 £m	**30 December 2005 £m**
Balance sheet					
Property assets	703.3	55.5	51.5	83.0	**317.0**
Other fixed assets	14.0	13.0	12.3	12.5	**14.4**
Intangible assets	–	–	14.5	12.2	**0.4**
Investment in joint ventures	29.5	24.7	56.5	46.7	**49.7**
Investment in associates	–	286.4	372.7	477.1	**589.9**
Other current assets/(liabilities)	(3.0)	9.2	(4.8)	8.2	**106.7**
Cash at bank	8.6	4.2	4.5	4.4	**40.0**
Bank loans greater than one year	(440.9)	(95.1)	(110.1)	(117.8)	**(395.6)**
Convertible Unsecured Loan Stock	(24.3)	(24.4)	(24.5)	(20.4)	**(4.1)**
Other liabilities	–	(3.5)	(5.5)	(11.4)	**(19.8)**
Net assets	287.2	270.0	367.1	494.5	**698.6**
Financed by					
Called up share capital	7.9	6.2	6.3	6.4	**7.1**
Share premium account	162.0	162.7	165.6	167.4	**216.8**
Revaluation reserve	83.0	74.0	145.2	247.2	**389.5**
Other reserves	2.5	4.3	2.5	1.1	**12.5**
Profit and loss account	31.8	22.8	47.5	72.4	**68.6**
Minority Interest	–	–	–	–	**4.1**
Capital employed	287.2	270.0	367.1	494.5	**698.6**
Return on equity (%)					
Return on equity	(4.5%)	14.6%	37.6%	37.0%	**30.2%**
Return on equity before exceptional items	(4.5%)	18.2%	37.6%	39.0%	**36.6%**
Increase in NAV per share + dividend	(3.8%)	16.7%	32.8%	36.6%	**37.1%**
Share price increase + dividend	8.5%	30.8%	26.0%	72.1%	**25.0%**
Total return					
Total return	(14.9)	35.2	101.6	136.0	**160.4**
Total return before exceptional items	(14.9)	43.9	101.6	143.2	**194.3**
Net assets per share (pence)					
Basic	364p	438p	591p	793p	**996p**
Adjusted fully diluted	336p	392p	521p	710p	**975p**
Adjusted fully diluted net assets per share growth (%)	(4.0%)	15.5%	32.9%	36.3%	**37.3%**
Gearing (%)	138.8%	30.9%	27.0%	22.0%	**50.6%**
Gearing (%) on a see through basis	157%	122%	129%	126%	**129%**
Profit and loss account					
Group turnover	62.1	26.2	39.5	62.4	**93.9**
Gross profit	50.6	20.5	33.0	55.4	**83.3**
Group operating profit	41.2	5.2	12.4	25.8	**49.7**
Share of operating profit in joint ventures and associates	3.1	27.3	35.9	30.6	**29.3**
Profit on sale of investment properties (including joint ventures and associates)	1.4	1.8	7.6	12.4	**7.0**
Net interest payable	(34.3)	(25.0)	(29.6)	(34.5)	**(42.5)**
Exceptional items	–	(7.2)	–	(8.2)	**(46.9)**
(Loss)/profit on ordinary activities before taxation	11.4	2.1	26.3	26.1	**(3.4)**
(Loss)/profit attributable to shareholders of the Company	19.7	0.8	19.4	20.2	**(3.2)**
Dividends	(4.7)	(4.3)	(5.6)	(9.0)	**(12.6)**
Retained (loss)/profit	15.0	(3.5)	13.8	11.2	**(15.8)**
Interest cover (x)	1.29	1.30	1.63	1.63	**1.86**
(Loss)/earnings per share (pence)					
Basic	24.0p	1.3p	31.4p	32.2p	**(4.7p)**
Diluted	22.6p	1.2p	27.3p	28.4p	**(4.7p)**
Dividends per share (pence)	6p	7p	9p	14p	**18p**
Dividend cover (x)	4.2	(0.2)	3.5	2.2	**(0.3)**
Total return on equity (%)	(4.5%)	14.6%	37.6%	37.0%	**30.2%**
Total return on equity before exceptional items (%)	(4.5%)	18.2%	37.6%	39.0%	**36.6%**

Glossary of terms

Adjusted fully diluted NAV per share includes the effect of those shares potentially issuable under the CULS or employee share options. The capital allowances deferred tax provision is added back.

Capital allowances deferred tax provision Full provision has been made for deferred tax arising on the benefit of capital allowances claimed to date. In the Group's experience liabilities in respect of capital allowances provided are unlikely to crystallise in practice and are therefore excluded when arriving at adjusted fully diluted NAV per share.

CULS is the Convertible Subordinated Unsecured Loan Stock.

Earnings per share (EPS) is the profit on ordinary activities after taxation and minority interest divided by the weighted average number of shares in issue during the period 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 property.

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

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

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

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

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

Loan to value (LTV) is the ratio of debt to the value of the associated property.

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

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

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

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

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

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

Total return is the Group's total recognised gains and losses for the period as set out in the statement of total recognised gains and losses (STRGL).

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

UITF 28 "Operating lease incentives" debtors Under accounting rules the balance sheet value of lease incentives given to tenants is deducted from property valuation and shown as a debtor. The incentive is amortised through the profit and loss account.

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.

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Shareholder information

2006 financial calendar

Final dividend record date	21 April 2006
Annual General Meeting	5 June 2006
Final dividend payment	16 June 2006
Interim results	September 2006
Interim dividend	October/November 2006
2006 preliminary results announcement	March 2007

Final dividend 2005 timetable

Record date	21 April 2006
Last day to receive DRIP mandates	2 June 2006
Dividend warrants posted	15 June 2006
Payment date/shares purchased	16 June 2006
Certificates/purchase statements dispatched	29 June 2006
CREST accounts credited	30 June 2006

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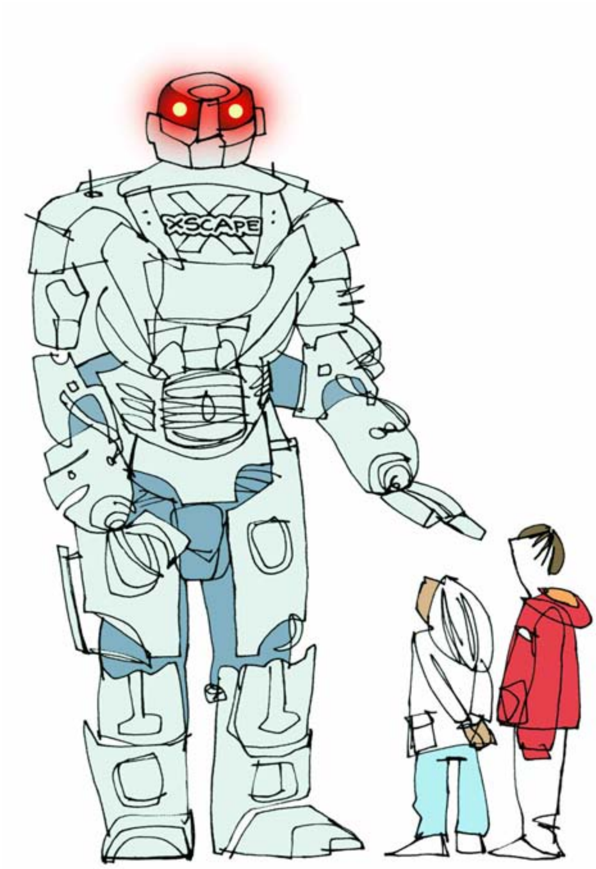

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