Capital&
Regional

Annual Report 2010

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Waterside Shopping Centre, Lincoln

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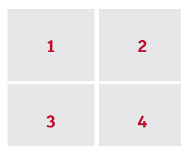


Forward-looking statements
This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking in nature and are subject to risks and uncertainties. Actual future results may differ materially from those expressed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

Our business

What we do

- Capital & Regional is a specialist property company with a focus on retail investments in the UK and Germany. The Group has two investments in well-established UK retail funds; a joint venture with a German retail property portfolio; and a number of interests in leisure and trade park properties.
- The Group applies its dedicated asset and property management teams to create enhanced returns for shareholders, fund investors and tenants.

Our business model

- We operate an asset business that invests in UK and German retail assets and funds and UK leisure assets and funds
- We operate an earnings business which generates fees from the management of The Mall and The Junction Funds, and certain joint ventures. In addition, we own stakes in the management companies that operate The X-Leisure Fund and our German portfolio, and have profits from the SNO!zone operating business

2010 highlights

Strong recovery in pre-tax profits and net asset value
- Return to profitability with pre-tax profits of £46.4 million compared to a loss of £113.4 million in 2009
- Net assets per share of £0.50, up 35% from 2009, and EPRA net assets per share of £0.57, up 21% from 2009
- UK fund property valuations up £197.2 million (Group share £28.8 million) and total UK fund property return of 18.4%

Further degearing at fund and group level
- Adjusted Group net debt to equity ratio of 29% compared to 48% in 2009
- Adjusted see-through net debt to property value of 66% compared to 76% in 2009 and see-through debt to property value of 76% compared to 86% in 2009
- Extension of The Mall bond funding for three years to 2015

Cash and asset recycling gathering momentum
- Group share of cash distributions from funds and joint ventures of £9.7 million
- Sale of 18 properties for £627.1 million across the Group, funds and joint ventures (Group share £117.8 million) generating a profit on disposal of £4.5 million
- Sale of The Mall, Bristol in January 2011 and the Ocean Retail Park in Portsmouth in March 2011 both at a premium to their year end valuation

Asset management skills driving operational performance
- Opening of significant extensions at The Mall, Blackburn and The Mall, Luton
- Improving occupancy with total UK fund occupancy of 95.9%, up 1.5%
- Contracted rent in the UK funds is up by £4.2m, up 2.5%, passing rent up by £1.6 million, up 1.0%

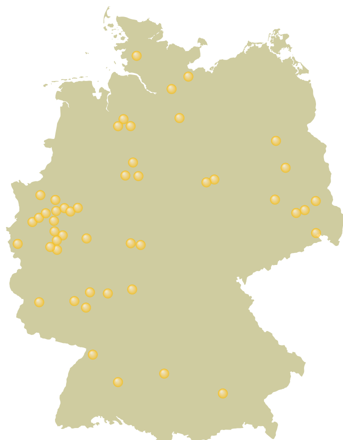
Positioned for growth
- Acquisition of The Waterside Shopping Centre in Lincoln for £24.8 million in January 2011 is the first acquisition since 2007
- Improved quality of the underlying assets, particularly for The Mall, following disposals in the year and Bristol in 2011. The Mall portfolio now has a majority of dominant secondary schemes which are located in areas which are expected to be less adversely affected by the economic downturn and government spending cuts

Our business continued

UK property map

[1] Sold after 30 December 2010
[2] Purchased after 30 December 2010

German property map



UK Retail

Shopping centres: The Mall

The Mall Fund is the specialist UK community shopping centre brand. Its key statistics are:

	At 30 December 2010	At 30 December 2009
Gross property asset value	**£1,128m**	£1,317m
Number of properties	**12***	19
Number of lettable units	**1,540**	2,151
Lettable space (sq feet – 000's)	**5,580**	7,011
Initial yield	**6.98%**	7.79%
Equivalent yield	**7.81%**	9.14%
C&R share	**16.72%**	16.72%

* Includes Bristol which was sold on 14 January 2011

Property investment criteria are as follows:

- Town centre locations
- Dominant in localised town catchments
- Minimum of 250,000 sq ft lettable area
- Car park and public transport facilities
- Covered or able to be
- Tenant profile, mass market or value retail
- Revenue and capital growth potential

Retail parks: The Junction

The Junction Fund is a specialist retail park fund which invests in mixed use retail parks. Its key statistics are:

	At 30 December 2010	At 30 December 2009
Gross property asset value	**£476m**	£572m
Number of properties	**9***	11
Number of lettable units	**118**	168
Lettable space (sq feet – 000's)	**2,122**	2,712
Initial yield	**5.77%**	6.43%
Equivalent yield	**6.82%**	7.58%
C&R share	**13.29%**	13.21%

* Includes Portsmouth which was sold on 15 March 2011

Property investment criteria are as follows:

- Either dominant scheme in local catchment or the ability to become so
- Minimum 80,000 sq ft multi-let retail park, freehold or long leasehold
- Planning consent for open A1, bulky goods or mixed thereof
- Asset management opportunities

Shopping centre: The Waterside Shopping Centre, Lincoln

On 22 February 2011, the Group completed the purchase of The Waterside Shopping Centre in Lincoln, a freehold covered shopping centre on three floors with 120,000 square feet and 46 lettable units. Subject to shareholder approval, the Group has conditionally exchanged contracts to form a 50:50 joint venture by selling 50% of the Group's interest in the shopping centre.

Asset and property management

The Mall and The Junction Funds are managed by Capital & Regional Property Management ('CPRM') as asset and property manager. For The Mall, Aviva Investors fulfils the regulated fund management role. For The Junction, Aviva Investors fulfils the regulated operator role and AREA fulfils the fund management role. Investors hold units in a Jersey Property Unit Trust (JPUT) which allows exposure to a diversified portfolio of properties without direct investment and the ability to transfer units without incurring Stamp Duty Land Tax. Following the purchase subsequent to the year end, The Waterside Shopping Centre is operated by CRPM as asset and property manager.

Germany Retail

The German commercial retail property portfolio is a joint venture with AREA Property Partners. Its key statistics are:

	At 30 December 2010	At 30 December 2009
Gross property asset value	**£496m**	£535m
Number of properties	**48**	50
Number of lettable units	**207**	193
Lettable space (sq feet – 000's)	**5,008**	5,090
Initial yield	**6.69%**	6.80%
C&R share	**49.60%**	48.82%

The Group's investment in Germany, which began in 2005, is held through a series of Jersey companies, which either own the properties directly or through interests in German limited partnerships. Since October 2008, the Jersey companies have been held in a 50:50 joint venture between Capital & Regional and AREA. The Group owns a 49.60% effective share in the underlying portfolio due to various minority shareholders in the underlying German entities.

Property investment criteria are as follows:

- Established out-of-town retail locations, typically anchored by food retailers with strong financial covenants
- Large stand-alone hypermarkets and retail parks with sales areas of more than 3,500 square metres with substantial land and car parking
- Strongly cash generative with asset management opportunities, generally through shorter leases

The Group's exposure to euro-denominated assets is reduced by borrowing in euros and hedging most of the remaining net investment through forward contracts. Income is not hedged.

Asset and property management

In August 2010 the Group acquired a 30% share in Garigal Asset Management GmbH, a German asset and property manager which has taken over responsibility for the asset and property management of the German property portfolio. We believe that carrying out the asset and property management through a single German-based entity will provide more effective management of the portfolio, increasing the range of opportunities to monetise the Group's stake and provide a German platform for extending these services to third parties.

Other interests

Leisure: X-Leisure

The X-Leisure Fund is the largest specialist fund investing in UK leisure property. Its key statistics are:

	At 30 December 2010	At 30 December 2009
Gross property asset value	**£528m**	£519m
Number of properties	**16**	18
Number of lettable units	**311**	337
Lettable space (sq feet – 000's)	**3,071**	3,406
Initial yield	**7.02%**	7.91%
Equivalent yield	**7.84%**	9.00%
C&R share	**11.93%**	11.93%

Property investment criteria are as follows:

- Either dominant scheme in local catchment or has the ability to become so
- Either is, or is able to be, anchored by a cinema
- 50% or more of rental income generated from leisure operators
- Asset management opportunities

Leisure: Great Northern Warehouse, Manchester

The Group owns 100% of the 399,000 square foot property, which is a converted Victorian warehouse in the centre of Manchester city centre including multiplex cinema, nightclub and bars, health and fitness, restaurants and shops. The principal occupiers of its 46 units are AMC Cinema, Virgin Active and London Clubs International.

Leisure: Xscape Braehead, Glasgow

The Group owns a 50% effective interest in Xscape Braehead which is a joint venture with Capital Shopping Centres. The 374,000 square foot property was constructed from 2004 and is located next to the Braehead Shopping Centre on the outskirts of Glasgow. Like the Xscapes in Milton Keynes and Castleford, which are owned by the X-Leisure Fund, it offers indoor real snow skiing operated by SNO!zone, bowling, dining, cinema and other leisure activities. The other principal occupiers of its 37 units are Odeon, Bowlplex and Ellis Brigham.

Leisure: Leisure World, Hemel Hempstead

The Group owns 100% of the 156,000 square foot leisure property which is located in Hemel Hempstead. The property includes a cinema, nightclub, bowling alley, ice rink, waterworld and restaurants. The principal occupiers of its 11 units are Luminar and Odeon.

Asset and property management

X-Leisure Limited, which is a 50:50 joint venture with AREA, carries out the asset and non-FSA regulated fund management activities for the X-Leisure Fund. In partnership with the management team led by PY Gerbeau, Hermes acts as Operator and is responsible for FSA regulated fund management activities. On 18 March 2011, Hermes sold their investments in the X-Leisure Fund and X-Leisure Limited to AREA. Investors in the X-Leisure Fund hold units in a Jersey Property Unit Trust (JPUT) which allows exposure to a diversified portfolio of properties without direct investment and the ability to transfer units without incurring Stamp Duty Land Tax.

The Great Northern Warehouse, Xscape Braehead and Leisure World are run by CRPM as asset and property manager.

Trade centres: FIX UK portfolio

The Group owns a 20% minority interest in the FIX UK Fund which is a portfolio of UK trade centres and trade parks. Paradigm Real Estate Managers perform the day-to-day management responsibilities of the Fund.

Ski operator: SNO!zone

The Group owns 100% of SNO!zone which is the largest indoor ski slope operator in the UK. SNO!zone rents the real snow slopes in the three Xscapes at Milton Keynes, Castleford and Braehead.

Chairman's statement

John Clare
Chairman

"Capital & Regional has made significant progress in 2010. A year which began with the continued degearing of Group and fund balance sheets ended with a renewed emphasis on growth. Last month we saw the purchase of the Waterside Shopping Centre in Lincoln, the first acquisition by the Company since 2007."

Overview

Pre-tax profits of £46.4 million for the full year reflect the positive impact of valuation movements across substantially all of the portfolio. It also reflects an uplift in income which flows from the impact of management's ability to engage with retailers more proactively now that restructuring is substantially completed.

Whilst retailers continue to experience challenging market conditions, the operating environment has proved more resilient than anticipated. The lack of any significant supply of new shopping centres, the shift in demand from the high street to out-of-town as well as the improved quality of the Group's underlying portfolios have all contributed to an increase in demand for space, a stabilisation in rental values and a boost in underlying income.

The purchase of the Waterside Shopping Centre in Lincoln and the proposed subsequent joint venture with Karoo typify the Group's strategy in action. The focus is on acquiring retail property assets where we can exercise meaningful influence and leverage our retail skills to generate asset management and performance fees by achieving superior returns in conjunction with our partners.

Dividend

We have carefully considered dividend policy in light of the Group's improved financial position. The Board, however, is not recommending the payment of a final dividend, meaning that no dividend will be payable for the full year. This reflects the fact that cash generated in many of the investments is currently being used either for capital expenditure or to pay down debt. The Board remains committed to resuming dividend payments when it considers it prudent to do so. As previously stated, future payments will be linked for the foreseeable future to the Group's cash generating ability and will normally be restricted to not more than 50% of operating cash flow less interest and tax to comply with the undertakings given for the Group's banking arrangements.

Responsible business

We attach particular importance to the Group maintaining its commitment to responsible business in the challenging operating environment we find ourselves in. We encourage each of the businesses and functions to develop an approach suitable to them, whilst providing strategic direction through a Responsible Business Committee. More details are set out in the statement on Responsible Business in the financial statements.

Our people

The transformation of the Group over the past two years has only been possible as a result of the continued hard work and commitment of our employees. I would like to take this opportunity to thank them for their efforts.

The Board

I would like to thank my predecessor, Tom Chandos, for his stewardship over 16 years as a Director of which nine years were as Chairman. Tom stepped down from the Board at the AGM in June. I have been fortunate to take on the role of Chairman as the restructuring of the Group has been substantially completed and I know that the current management team have greatly appreciated his leadership and support during what has been a very challenging time. I would also like to thank Alan Coppin who stepped down in September after six years as a Director. I wish him well in his many and varied interests.

Chief Executive's statement

Hugh Scott-Barrett
Chief Executive

"I am pleased to report a return to profitability for the year. Capital & Regional's pre-tax profits of £46.4 million in 2010 compare with a pre-tax loss of £113.4 million in 2009. Higher property values, the benefits of the significant restructuring and a better operational performance have all contributed to this much improved result and the increase in net asset values."

Basic net asset value at 50p per share is 35% above that seen at the end of last year whilst EPRA net asset value has risen 21% to 57p per share. Recurring profitability has been adversely affected by the impact of both disposals on both investment and fee income and dilution following capital raising in the UK funds. As a consequence recurring pre-tax profits were £14.9 million compared with £17.5 million in 2009 but these have now begun to stabilise.

Property valuations in the UK funds have continued to recover during the year and are now 17% above the trough seen in the first half of 2009. Retail warehousing and leisure assets were particularly strong in the first half of the year whilst shopping centre valuations improved sharply in the third and fourth quarters – the Mall's valuation improved 13% at the property level and 39% at the unit price level compared to the end of 2009. Whilst strength in investment markets has driven yield compression, a strong operating performance has contributed to out-performance against the peer group in two of the three funds.

Values in Germany have stabilised following a slight fall in values in the first half of the year and ended the year flat after adjusting for the cash received on lease surrenders and other capital receipts.

Financial position

We have continued to prioritise the strengthening of the Group's balance sheet in 2010. De-leveraging through disposals both at Group and fund level and the restructuring of the Mall bonds have contributed to the further improvement in the financial position of the Company during the year.

Net adjusted gearing at the Group level was 29% as at 30 December 2010 compared to 48% a year earlier. This reflects the impact of the sale of 10 Lower Grosvenor Place, Beeston Place and the MEN Arena for an aggregate £18.2 million in the first half of the year, the cash distributions totalling £9.7 million from the Junction Fund, German portfolio, X-Leisure Fund and X-Leisure Limited, as well as higher valuations across the funds and joint ventures.

At the fund level, the Mall Fund completed the disposal of seven assets for total proceeds of £340.8 million during the year and completed the sale of Bristol for £50.2 million shortly after the year end. Following these disposals, the headline LTV for the Mall is now 72% which provides a property valuation headroom of 13% against the LTV covenant of 83% which will be tested for the first time in December 2011.

The Junction disposed of two assets for total proceeds of £142.3 million during 2010 and has subsequently completed the sale of Portsmouth for £60.9 million compared to the year end valuation of £55.4 million. The LTV at year end is 60%, excluding £27.0 million cash on the Fund balance sheet, and this is after the distribution in the year, of which the Group received £5.6 million.

X-Leisure Fund's disposal of two assets for total proceeds of £59.5 million together with a growth in property values has contributed to lowering the Fund LTV to 56% compared to 68% at the end of 2009.

Whilst the refinancing of two portfolios earlier in the year within our German joint venture were important, the restructuring of the Mall bonds was the most significant step in the further strengthening of the Group's overall financial position. The three-year maturity extension (for which a package of financial covenants has been added) significantly increases financial flexibility whilst the reserve for capital expenditure has given additional impetus to the efforts of the management team to improve operating performance.

We will continue to adopt a prudent approach to balance sheet management by anticipating refinancing needs. In this context, we are well advanced in negotiations on the extension of a securitised loan relating to one of the portfolios within our German joint venture which matures later this year and we took steps to derisk this refinancing by the purchase of part of the joint venture portfolio debt at a discount.

Operations

One of the major objectives of the degearing has been to improve the quality of the underlying assets. This is particularly true in the case of the Mall where, following the disposals in the year and Bristol in 2011, the portfolio now has a majority of dominant secondary schemes

Chief Executive's statement continued

which have higher levels of occupancy. These are located in areas which are expected to be less adversely affected by the economic downturn and government spending cuts.

The improved level of occupancy, the growth in like-for-like income across not only the Mall but also Junction and X-Leisure reflect this improved quality as well as the impact of a large number of asset management initiatives.

Highlights include:

- the opening of a 220,000 square feet extension at Blackburn anchored by Primark, Next, H&M Hennes, New Look, Peacocks, JD Sports & Bank;
- completion of a 76,500 square feet extension at Luton anchored by TK Maxx and Argos;
- portfolio-wide lease regears for B&Q of three units with 312,000 square feet and securing income to 2030; and
- two lettings to Curry's for 54,000 square feet across the Junction and the opening of the first Best Buy store in the UK of 50,000 square feet at West Thurrock.

Contracted income across the businesses has grown steadily as retailers have looked to take additional space and as the funds have freed up resources for capital expenditure. The Mall and The Junction funds have spent £38.9 million on capital expenditure in 2010 and expect to spend up to £48.1 million in 2011.

Strategy

Capital & Regional is a specialist property company with a track record in exploiting asset management opportunities in retail and other related sectors. The progress that has been made in 2010 in repositioning the business enables us to approach this year with greater confidence.

The recently completed acquisition of the Waterside Shopping Centre in Lincoln illustrates the new strategy in action. Our focus is retail. We intend to take a meaningful stake in properties which we acquire, working in partnership with joint venture partners whilst still leveraging our management skills through asset management and performance fees. I am optimistic that we will be able to execute further such transactions during the course of the year.

We will continue to support the growth of both the Mall and Junction Funds based on the attractive returns which can be achieved in the medium term. This may involve support for development initiatives and/or the purchase of additional units in each fund if these can be achieved at attractive prices. X-Leisure continues to perform very strongly on the back of the best in class X-Leisure Limited management team. We welcome the acquisition by AREA Property Partners of Hermes' stake in the X-Leisure Fund and X-Leisure Limited which will further enhance performance.

The acquisition of, in conjunction with our partners AREA, a majority stake in Garigal Asset Management GmbH gives us the opportunity to efficiently and aggressively asset manage our German joint venture. In the current market environment, Germany represents a very attractive segment to own and to develop.

Outlook

Investor appetite for retail assets continues to be strong and in the absence of any significant increase in supply within the first quarter, property valuations have been resilient.

There is no doubt that conditions for our retail clients are likely to remain very challenging. The steps that we have taken however in the last year to improve the quality of our portfolio mean that our centres and parks represent a more attractive mix of locations. The availability of capital expenditure for key asset management initiatives enables us to attract key retailers.

Disposals from within the funds and at Group level will be determined by recycling of capital and/or asset management initiatives but not by the need to degear. The decision to retain Great Northern reflects a belief that we can deliver the asset management initiatives required for this property to be an attractive institutional asset which should not therefore be sold at a distressed price.

Capital & Regional's success in the past has been built on its skills both as a property investor as well as an asset manager. It is my firm belief that this combination offers the potential for attractive returns for our shareholders whilst still maintaining a policy of prudent balance sheet management.

Operating review

The Group's operations are affected by the underlying performance of the tenants in its properties, and the demand for space and by the wider property investment market which reflects the impact of supply and demand for property.

Investment portfolio

Overall values of the Group's portfolios have produced significant property level internal rates of return in 2010 as shown below:

2010	Property valuation £m	Capital return %	Total return %	Initial yield %	Equivalent yield %
The Mall	1,128	10.55	18.88	6.98	7.81
The Junction	476	6.53	12.97	5.77	6.82
X-Leisure	528	13.83	22.09	7.02	7.84
UK weighted average[1]	2,132	10.46	18.36	6.72	7.60
Germany	496	(1.57)	5.69	6.69	n/a

[1] Weighted average by property valuation

In 2010 significant inward yield shift resulted in a good year for commercial property returns. There was increased investment activity with good demand for properties and valuations holding firm to date in 2011. The valuation gains seen in our UK retail property values in 2010 have been significantly driven by increases in rental income.

There was inward yield shift of 60 basis points in The Mall, 54 basis points in The Junction and 83 basis points in X-Leisure. Yield shift in Germany was lower at 11 basis points inwards.

The capital return in Germany was affected by two sales and the acceptance of a lease surrender at Kreuztal for a €6.3 million premium. The two properties were sold for portfolio optimisation, as they were non-core due to their small size. The Kreuztal surrender reflected defensive asset management to help maintain the value of the asset.

Properties disposed of during 2010 are set out below:

Property	Date	Sales proceeds £m	Net initial yield %
The Mall			
Aberdeen	February	47.4	7.9
Preston	March	87.0	7.6
Ilford	June	70.6	7.8
Falkirk	August	47.6	7.5[1]
Gloucester	August	26.9	7.5[1]
Southampton	August	21.3	7.5[1]
Romford	August	40.0	7.5[1]
		340.8	
The Junction			
Aylesbury	April	60.4	6.0
Hull	September	81.9	7.0
		142.3	
X-Leisure			
Croydon	March	32.5	7.6
Birmingham	October	27.0	9.0
		59.5	
Other properties (7)		84.5	
Total		627.1	

[1] Blended yield across four properties

The Mall Bristol was sold in January 2011 for £50.2 million (NIY 7.0%) compared to its year end valuation of £50.0 million. The premium over valuation on the seven disposals by The Mall during 2010 was 11.6%.

The Junction sold the Ocean Retail Park in Portsmouth on 15 March 2011 for £60.9 million (NIY 5.81%) compared to its year end valuation of £55.4 million. The premium over valuation on the two disposals by The Junction during 2010 was 2.3%.

The German joint venture sold two properties in February and May 2010 for £5.7 million. FIX UK sold two properties in Ipswich and Gloucester for £4.1 million and the MEN Arena joint venture was sold in June 2010 for £62.2 million (NIY 7.15%).

In March 2010, the Group sold its wholly owned Beeston Place property for £2.1 million and its wholly owned 10 Lower Grosvenor Place property for £10.4 million.

The property level returns coupled with the financial gearing within the funds and the German joint venture have resulted in notable increases in the geared returns earned by the Group from these investments in 2010 on an IFRS basis.

Geared returns earned by the Group

	2010 %	2009 %
The Mall	**76.7**	(54.1)
The Junction	**14.8**	(55.6)
X-Leisure	**46.7**	(53.2)
UK fund weighted average[1]	**55.7**	(54.4)
German joint venture	**14.7**	(16.8)

[1] Based on Group interest in the three funds at the year end

Operating review continued

The Group measures its total property returns against the relevant IPD index and aims to exceed the benchmark returns.

Performance versus IPD index

	2010	2009
The Mall		
Property level returns[1]	**20.0**	(12.2)
IPD shopping centre index	**16.9**	(5.0)
The Junction		
Property level returns[1]	**13.1**	(4.8)
IPD retail parks index	**16.3**	11.6
X-Leisure		
Property level returns[1]	**22.1**	(8.5)
IPD leisure index	**18.4**	3.7

[1] As ratified by IPD

The outperformance by The Mall, in part reflects the disposal of non-core assets by the Fund ahead of their valuations, but also the strong growth in contracted rent from active asset management initiatives. Consequently, the Fund has seen outperformance in both the capital growth and income return component parts of the Total Return calculation. Completion of a high number of lettings has grown contracted rent and reduced void costs. Approximately 30% of the Mall's property valuation increase is attributable to net income growth, reflective of the strengthening of the portfolio following the sale of a number of the less dominant schemes.

The Junction's underperformance against its benchmark was a consequence of ongoing asset management initiatives. At Bristol, where the void rate has been reduced from 11% to 3% some lettings have been achieved below ERV. At Thurrock, the Fund accepted surrenders of two leisure units for development purposes which have impacted on the returns this year but have positioned this property for future opportunities. The performance of the balance of the portfolio was ahead of the IPD benchmark.

The X-Leisure outperformance reflects net income growth of 2.7% arising from new lettings and rent review uplifts.

Passing rent (like for like)

	December 2010 £m	June 2010 £m	December 2009 £m
The Mall	**95.0**	93.2	94.8
The Junction	**28.8**	28.5	28.2
X-Leisure	**40.7**	40.0	39.9
UK	**164.5**	161.7	162.9
	€m	€m	€m
Germany	**43.6**	43.9	43.9

The Mall had a further £5.2 million of contracted rent at the year end which is not included in the above figures. The Junction had an additional £2.0 million of contracted rent and X-Leisure £0.6 million of additional contracted rent. The growth in contracted rent was 2.5% on a like for like basis in the UK.

The Junction increase in rent has been achieved despite the two surrenders at Thurrock with rent of £0.4 million and a strategic decision to re-gear a number of leases with B&Q and TK Maxx. These re-gears reduced passing rent by £0.7 million as at the year end, but had an immediate uplift in valuation of £1.1 million and added 5.6 years income to these leases. During 2010 Best Buy opened their Thurrock store and commenced paying rent.

Occupancy levels (like for like)

	2010 %	2009 %
The Mall	**95.8**	94.2
The Junction	**97.3**	94.5
X-Leisure	**95.3**	94.7
UK weighted average	**95.9**	94.4
Germany	**96.7**	98.1

Occupancy levels across all the UK funds rose over the year and this demonstrates the ability of our asset management teams to identify tenants for vacant space in a demanding market.

The Junction saw the biggest increase in occupancy as a result of letting five units at each of Imperial Park Bristol and Thurrock.

In X-Leisure there is an agreement for lease in place which is subject to planning and licensing being obtained. If this letting had been completed at the year end occupancy would have increased to 95.9%.

The reduction in occupancy in Germany arises from the surrender at Kreuztal.

New lettings, renewals and rent reviews

	The Mall	The Junction	X-Leisure	Total UK
Number of new lettings	145	14	23	182
Rent from new lettings (£m)	10.9	2.2	0.9	14.0
Comparison to ERV (%)	(9.5)	(16.0)	(4.5)	(10.2)
Renewals settled	31	–	7	38
Revised passing rent (£m)	1.8	–	0.3	2.1
Comparison to ERV (%)	(4.7)	–	(11.5)	(5.6)
Number of rent reviews settled	118	17	53	188
Revised passing rent (£m)	14.7	6.3	9.6	30.6
Uplift to previous rent (%)	4.4	5.0	16.3	8.3
Comparison to ERV (%)	6.5	(1.5)	8.3	5.4

There has been steady demand for quality space of the right size, particularly from the larger fashion retailers and the fast expanding discount stores.

The Mall saw a number of significant lettings during the year, particularly at the two developments at Blackburn and Luton. These include lettings to TK Maxx, Argos, Primark, Next, H&M Hennes, New Look and Peacocks.

Letting performance relative to ERV has been negatively influenced by the malls that were sold, including Bristol and the two developments. Excluding these malls there were 102 lettings in the portfolio delivering £7.4 million of rent at 5.6% below ERV. The trend improved in the second half of the year and in the final quarter new lettings were 2.6% behind ERV indicating that ERVs are stabilising.

The asset management team were effective in delivering additional income prior to the sale of assets. In Bristol, the Fund secured a letting to Family Bargains, improving the net income position by £0.3 million and therefore value. At Romford, three lettings were completed including an amalgamation of three units which were let to Poundland improving the net income position by £0.3 million.

The scale of The Mall portfolio continues to be utilised in delivering advantageous group deals. A good example is the 12 unit transaction with the Regis Group (trading as Supercuts) where rents were secured at ERV for a combined additional term of 39 years.

In The Junction a number of notable lettings have been made to GAP, Peacocks and DSG. The shortfall in new letting income relative to ERV reflects downward pressure at Bristol where void levels were more than 10% at the beginning of the year. These lettings have significantly increased occupancy levels at this scheme. A further three lettings in the Fund with total annual rent of £0.2 million were conditionally let at year end.

X-Leisure has completed lettings to Strada, Mitchells & Butlers and Prezzo.

In X-Leisure 41% of leases contain minimum or fixed uplifts which continue to drive income levels.

In Germany there were seven lettings generating an initial passing rent of €0.2 million.

Income security and quality

The number of administrations is a key indicator of the strength and trading performance of tenants. It was pleasing to note in 2010 that there was a significant decline in administrations compared to the prior year.

	The Mall	The Junction	X-Leisure	Total UK
Number of administrations (units)	50	2	13	65
Passing rent administrations (£m)	2.2	0.1	0.8	3.1
Number of units re-let or still trading	30	2	–	32

On a like for like basis, administrations have fallen from 108 in 2009 with a passing rent of £9.1 million.

There were only two administrations in the German portfolio over the course of the year with a passing rent of €39,000.

Credit risk is managed through the assessment of the covenant strength of all incoming tenants and by monitoring credit ratings of key existing tenants. The ten largest tenants in each of the UK funds are given below.

Largest occupiers by rental income

The Mall	%	The Junction	%	X-Leisure	%
Boots	5.1	B&Q plc	13.5	Cine UK	18.8
Arcadia	3.2	DSG Retail	10.8	The Restaurant Group	4.2
New Look	2.5	Home Retail Group	6.9	Odeon	3.9
Debenhams	2.2	TK Maxx	4.5	SNO!zone	3.6
BHS	2.2	Comet Group	4.3	Vue Entertainment	3.1
WH Smith	2.1	Tesco Stores	4.1	Virgin Active	3.1
Peacocks Stores	2.0	Dave Whelan Sports	3.3	Spirit	2.7
Clinton Cards	1.9	Carpetright	3.3	Pizza Hut	2.6
Superdrug	1.8	Boots	2.8	Tenpin	2.4
Argos	1.7	Furniture Village	2.6	Mitchells & Butlers	2.3
	24.7		56.1		46.7

The high exposure to Cine UK in X-Leisure is a function of the size of cinemas relative to the rest of a leisure scheme. This risk is closely monitored and direct contact maintained with this operator.

At the year end there were 159 commercial temporary lettings (less than one year) of which 155 (2009: 134) were within The Mall. Of these, 19 (2009: 23) were at Bristol which has been sold since the year end. Temporary lettings are important because they maintain occupancy and energise the trading environment whilst contributing income and minimising the costs relating to vacant units (the share of service charges and business rates).

The importance of temporary lettings has shifted during 2010, broadly driven by individual schemes' occupancy levels. On a like for like basis and excluding Bristol, the temporary letting effective void is 5.5% compared to a pre-recession exposure at 30 December 2008 of 3.4%.

In Germany, 79% of the income is derived from seven tenants who are all strongly rated covenants such as Metro, Rewe and Edeka. In sector terms, 65% of the top 15 tenants are food retailers, 16% are DIY operators and 9% are logistics businesses.

Footfall

Customer activity is a key management metric of the operational success of schemes and this is measured through footfall counts in shopping centres and leisure venues. Car counts are used to record customer activity in retail parks.

In The Mall, footfall rose 1.0% to 129.8 million visits to the 12 malls owned at the year end. This compares positively with the National Retail Traffic Index which reported a 0.3% increase. Wood Green showed the biggest increase helped by the 2009 letting to Primark who are now looking to extend their store in this centre.

In X-Leisure, footfall has fallen 4.5% compared to 2009. Most of this was attributable to the poor weather at the end of the year.

Operating review continued

Car counts at The Junction's retail parks were down 1.2% compared to 2009 having been affected adversely by a fire at Maidstone requiring the rebuilding of the Homebase unit and the bad weather in December.

Developments

The Mall successfully delivered two developments in 2010.

In Blackburn, the 220,000 sq ft extension was opened. The retail space created was well received by retailers, with units let to Primark, Next, H&M Hennes, New Look, Peacocks, Deichman Shoes, Carphone Warehouse, USC, Infinities, JD Sports/Bank. At the year end, the development was 92% let by floor area, with a further 3% in solicitors hands. The original part of the scheme was refurbished and several retailers took the opportunity to refit/regear their stores, most notably Arcadia and River Island. The development also incorporated a regear of the head lease with Blackburn Council, who in turn took a lease for a new 60,000 sq ft indoor market. The development has repositioned Blackburn as a retail destination and the scheme's dominance within the town should deliver continued strong performance.

In Luton, the 76,500 sq ft "St Georges Square" extension was completed incorporating three retail units with a further six restaurant units. The development was 70% pre-let by floor area to TK Maxx and Argos and a further 27% is now in solicitors hands, which leaves one unit to let. This was a strategically important development that was undertaken in conjunction with Luton Borough Council, and fulfils the first element of our ongoing programme of extension and reconfiguration as we seek to create larger space retail units to satisfy the strong levels of demand for the town. There remain ongoing development opportunities within Luton that we are now actively pursuing.

The UK pipeline for new retail space is at its lowest for some years, but retailers are still seeking good quality space in the right locations to support their growth aspirations.

The Mall is therefore actively pursuing significant opportunities at Camberley, Walthamstow and Luton. Good development potential also exists at Sutton Coldfield and Maidstone and these are currently being considered as part of a planned asset management/development programme.

The Junction has successfully transferred planning consent from its Renfrew scheme to Abbotsinch where a strategic letting has been agreed with Pets at Home. Pre-letting has commenced on a new terrace and a good level of tenant interest has been shown resulting in terms being agreed with a number of tenants. There is further significant development potential at Oldbury where pre-lettings on 105,000 sq ft are in detailed negotiations and discussions with the local authority are being progressed to obtain a planning consent which can deliver to tenants' requirements.

At Thurrock, the strategic surrenders accepted from two leisure operators have delivered control over these units within the scheme. The fund is continuing to work with the Urban Development Corporation and local authority to deliver a framework from which a planning application can be made.

Financial review

Key performance indicators

The key performance indicators we use to measure our performance against our strategy and objectives are:

	2010	2009[1]
Investment returns		
Net assets per share	**£0.50**	£0.37
EPRA net assets per share	**£0.57**	£0.47
EPRA triple net assets per share	**£0.50**	£0.37
Total shareholder return[5]	**(2.2)%**	(24.7)%
Financing		
Group net debt[2]	**£49.8m**	£62.9m
See-through net debt[2,3]	**£464.7m**	£583.9m
Net debt to equity ratio[2]	**29%**	48%
See-through debt to property value[4]	**76%**	86%
See-through net debt to property value[2,3,4]	**66%**	76%
Profitability		
Recurring pre-tax profit	**£14.9m**	£17.5m
Profit/(loss) before tax	**£46.4m**	£(113.4)m
Basic earnings/(loss) per share	**£0.13**	£(0.59)
Property under management	**£2.8bn**	£3.1bn

[1] See-through debt and net debt have been restated to include FIX UK as the Group's investment is no longer impaired to £nil as it was in 2009

[2] Adjusted for the £5.0 million tax payment made on 31 December 2010 as disclosed in note 22a

[3] Adjusted for the Group's share of the €18 million German junior debt acquired during the year as disclosed in note 22a

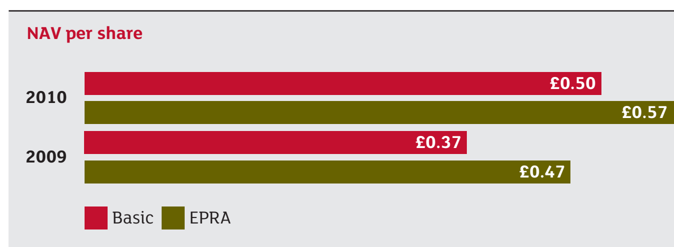
[4] See-through debt and adjusted see-through net debt divided by property value as disclosed in note 22a

[5] Comparative restated using the closing market share price to be on a consistent basis with the current year

Investment returns

At 30 December 2010, equity shareholders' funds were £174.5 million, up by £44.7 million compared to £129.8 million at 30 December 2009. This is due to increased property values in the Group's underlying investments, the resilient recurring pre-tax profit and the net profit on property sales.

Net assets per share increased by £0.13, or 35%, to £0.50 per share and EPRA net assets per share increased by £0.10, or 21%, to £0.57 per share. Detailed calculations are disclosed in note 27.



To provide a better understanding of the composition of the business, the Group presents its balance sheet in two separate ways, with the "statutory" balance sheet following the accounting and statutory rules, and the "see-through" balance sheet showing the Group's proportionate economic exposure to the different property portfolios.

These were:

	Statutory		See-through	
	30 December 2010 £m	30 December 2009 £m	**30 December 2010 £m**	30 December 2009[1] £m
Fund properties				
The Mall	**58**	33	**199**	233
The Junction	**24**	26	**61**	74
X-Leisure	**26**	18	**62**	61
FIX UK	**1**	–	**27**	28
Joint venture properties				
Germany[2]	**48**	47	**248**	268
Other joint ventures	**(8)**	(2)	**23**	41
Wholly owned properties				
Great Northern, Hemel Hempstead and others	**81**	94	**81**	94
Total properties	**230**	216	**701**	799
Other assets and liabilities	**16**	(6)	**6**	(9)
Debt	**(71)**	(80)	**(532)**	(660)
Net assets	**175**	130	**175**	130

[1] Restated to include FIX UK as the Group's investment is no longer impaired to £nil as it was in 2009

[2] The statutory figures include the Group's shareholder loan to the German joint venture treated as equity

Financing

A summary of the movements in Group and off balance sheet debt during the year is as follows:

	Group debt £m	Off balance sheet debt £m	**See-through debt £m**
At 30 December 2009[1]	80.4	579.9	**660.3**
Property disposals	(7.4)	(97.4)	**(104.8)**
Other repayments	(2.5)	(11.2)	**(13.7)**
FIX UK equity contribution	–	(1.1)	**(1.1)**
Other movements[2]	–	(8.5)	**(8.5)**
At 30 December 2010	**70.5**	**461.7**	**532.2**

[1] Restated to include FIX UK as the Group's investment is no longer impaired to £nil as it was in 2009

[2] Primarily foreign exchange movements in the Group's German joint venture

The undrawn core credit facility of £58.0 million which expires in September 2013, together with cash and cash equivalents of £20.7 million (after adjusting for the £5.0 million tax payment as disclosed in note 35), provided the Group with liquidity of £78.7 million at 30 December 2010.

Net debt to equity ratio

During the year the net debt to equity ratio fell from 48% to 29% at 30 December 2010, due to loan repayments of £9.9 million, a net cash inflow of £8.2 million, combined with an increase in shareholders' equity of £44.7 million. The ratio has been adjusted to reflect the cash tax payment of £5.0 million made by the Group on 31 December 2010 that is disclosed in notes 22a and 35.

Financial review continued

Group debt

During the year, Group debt fell to £70.5 million compared to £80.4 million at 30 December 2009, primarily due to the repayment of the remaining £7.4 million loan on 10 Lower Grosvenor Place following the sale of the property in March 2010. The surplus cash generated by the Hemel Hempstead and Great Northern properties is being used to pay down the relevant loans each quarter via a cash sweep.

The breakdown of Group debt and net debt at year end was as follows:

	Debt at 30 December 2010[1] £m	Average interest rate[2] %	Fixed %	Duration of fixing (years)	Duration to loan expiry (years)
Core revolving credit facility	–	n/a	–	–	2.7
Great Northern	**63.6**	6.26	96%	2.8	2.8
Hemel Hempstead	**6.9**	3.24	–	–	1.8
Group debt	**70.5**	5.96	87%	2.8	2.7
Cash and cash equivalents	**(25.7)**				
Group net debt	**44.8**				
Cash adjustment[3]	**5.0**				
Adjusted Group net debt	**49.8**				

[1] Excluding unamortised issue costs

[2] In the case of variable rate loans, based on LIBOR at 30 December 2010 plus the appropriate margin

[3] Cash adjustment for the £5.0 million tax payment made on 31 December 2010 related to the current tax liabilities recorded at 30 December 2010 as disclosed in notes 22a and 35

The core revolving credit facility remained undrawn during the year (2009: £nil) and at year end the forecast covenant tests indicate that there is sufficient headroom for the full £58.0 million facility to be available for draw down.

The Great Northern facility is now £63.6 million drawn (2009: £65.2 million) following the repayment of £1.6 million during the year via the loan's cash sweep mechanism.

The Hemel Hempstead facility is now £6.9 million drawn (2009: £7.8 million) following repayment of £0.4 million during the year via the loan's cash sweep mechanism and a £0.5 million amortisation payment in July 2010. A further amortisation payment of £0.5 million occurred in January 2011 with a further £0.5 million due in July 2011. The loan is currently unhedged and bears interest at variable rates.

Cash of £25.7 million was held at 30 December 2010 (2009: £17.5 million), of which £2.5 million (2009: £1.9 million) is held in restricted accounts secured on debt facilities and £0.2 million (2009: £0.2 million) is held in segregated accounts.

Off balance sheet debt

The breakdown of the Group's share of off balance sheet debt and net debt at year end was as follows:

Group share	Debt at 30 December 2010[1] £m	Net debt at 30 December 2010 £m	Loan to value at 30 December[2] 2010 %	Average interest rate %	Fixed %	Weighted average duration of fixing (years)	Weighted average duration to expiry (years)
The Mall	**138.4**	**119.5**	**73**	4.94	100	4.3	4.3
The Junction	**38.4**	**34.8**	**60**	6.78	99	3.3	3.3
X-Leisure	**35.6**	**32.8**	**56**	6.52	99	3.1	3.1
FIX UK	**25.3**	**24.7**	**93**	7.43	100	1.0	2.2
German joint venture	**201.2**	**190.6**	**82**	4.55	102	2.2	2.7
Braehead	**22.8**	**21.6**	**89**	6.24	88	0.8	3.7
Other[3]	**n/a**	**(1.3)**	**–**	–	–	–	–
Off balance sheet	**461.7**	**422.7**		5.25	100	2.8	3.3
German debt adjustment[4]	**(7.8)**	**(7.8)**					
Adjusted off balance sheet	**453.9**	**414.9**					

[1] Excluding unamortised issue costs

[2] Borrowings (excluding unamortised issue costs) divided by investment property at fair value

[3] Off balance sheet cash held in other associates and joint ventures

[4] Debt adjustment for the Group's share of the €18 million German junior debt acquired during the year as disclosed in note 16c and 22a

On 21 July 2010, The Mall completed a restructuring of its borrowing arrangements. Unitholders agreed to an extension of the life of the Fund from June 2012 to June 2017, whilst bondholders agreed to an extension of the Intercompany Loan from the funding entity to The Mall Limited Partnership, which represents the effective maturity of the borrowing from the Fund's perspective, from April 2012 to April 2015. The key elements of the restructuring were:

- an increase in the margin payable on the notes from 0.18% to 0.68% with effect from April 2011. As a result of amendments to the Fund's hedging instruments, the interest rate payable on the bonds over the period to 2015 will, for most of the period, be below 5%;

- mandatory amortisation of the Intercompany Loan to £800 million by December 2012 and £600 million by December 2014. Following the sale of Bristol in January 2011 for £50.2 million there will be a further bond repayment which, on a proforma basis, will result in The Mall debt falling to £777.5 million and the initial amortisation target being achieved well in advance of the required date;

- the introduction of an 83% LTV covenant from December 2011, reducing in stages to 65% in December 2014. Following the sale of Bristol in January 2011 the proforma LTV will be 72%;

- a suspension of the current release price mechanism until the LTV is below 60% and debt is less than £600 million, which will allow the sale of properties where the proceeds would be below the historically determined release price; and

- the restriction of distributions until the LTV is below 60% and debt less than £600 million.

A contribution of £155 million was also made from the Fund's cash reserves, with £50 million used to repay existing debt, £85 million being set aside for leasing incentives, capital expenditure and working capital requirements, and £20 million covering the costs of the transaction, including swap breakage costs and consent solicitation fees.

The Mall debt is £827.7 million at year end, a fall of £418.5 million compared to £1,246.2 million at 30 December 2009. The debt fell as borrowings were repaid with the proceeds of the asset sales of Aberdeen, Preston, Ilford, Falkirk, Gloucester, Romford and Southampton, and a £50.0 million repayment from cash reserves as part of the refinancing in July 2010. The cash held in the Fund was £113.2 million at year end (2009: £235.7 million).

The Junction debt is £289.2 million at year end, a fall of £85.0 million compared to £374.2 million at 30 December 2009. The debt fell as borrowings were repaid with the proceeds of the asset sales of Aylesbury and Hull. A further repayment of £31.7 million took place in March 2011 from the proceeds of the sale of Portsmouth. The cash held in the Fund was £27.0 million at year end (2009: £28.3 million).

X-Leisure debt is £298.3 million at year end, a fall of £56.2 million compared to £354.5 million at 30 December 2009. The debt fell as borrowings were repaid with the proceeds of the asset sales of Croydon and Birmingham. The cash held in the Fund was £23.8 million at year end (2009: £31.9 million).

FIX UK is now included in off balance sheet debt, having been excluded in 2009 while the Group's investment was impaired to £nil. The debt is £126.3 million at year end, a fall of £10.8 million compared to £137.1 million at 30 December 2009. The debt fell as borrowings were repaid following an equity raise in January 2010 and from the proceeds of the sale of assets at Ipswich and Gloucester. The Group contributed £1.1 million as its share of new equity in connection with this refinancing. The cash held in the Fund was £3.2 million at year end (2009: £5.3 million).

The German joint venture is made up of six portfolios each of which is financed by separate and non-recourse euro-denominated loan facilities. The debt is €471.4 million at year end, a fall of €10.7 million compared to €482.1 million at 30 December 2009. At the applicable exchange rates this was equivalent to £405.7 million (2009: £435.8 million). The cash held in the partnership was €24.6 million at year end (2009: €18.8 million).

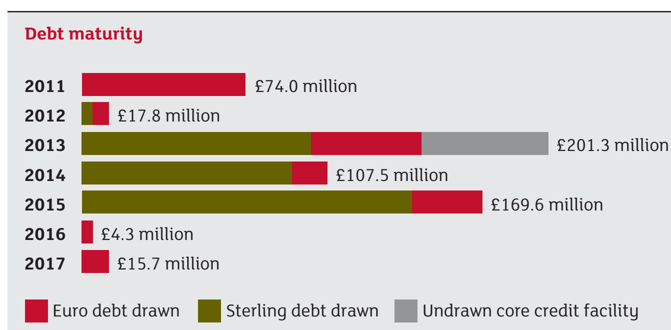
During 2010, two loans were refinanced. The first was a €46.5 million facility with Bank of Scotland which has been extended to December 2013 at a lower principal amount of €40.0 million, as the proceeds of two disposals were used to pay off the remainder of the debt. The second was a €65.0 million facility with Eurohypo comprising two loans which were extended to December 2013. The main focus is now on the refinancing of a €164.0 million debt in one of the German portfolios which matures in July 2011. The debt is made up of €146.0 million of senior debt which is held in an Irish securitisation vehicle, and €18.0 million of junior debt which was acquired by the Group and the German joint venture partner shortly before year end at a discount reducing the refinancing risk. We are in advanced discussions with the loan servicer on extending the maturity of the debt and are confident of a successful resolution.

Braehead debt is £45.6 million at year end, a fall of £3.4 million compared to £49.0 million at 30 December 2009. The debt breached its LTV covenant in February 2010 and in April 2010, the Group and its joint venture partner agreed a refinancing of the loan by injecting funds which, together with cash already held in the partnership, reduced the debt to £45.6 million. The bank agreed to a standstill on the LTV breach prior to the refinancing being agreed. The terms of the loan were also renegotiated which increased the margin from 1% to 2% which will be rolled up for payment in March 2012. The cash held in the partnership was £2.4 million at year end (2009: £2.3 million).

The MEN Arena was sold in June 2010 and the associated bank loan of £47.8 million (our share of which was 30%) is therefore no longer included in off balance sheet debt.

Financial review continued

Maturity analysis
The chart below shows the maturity profile of the see-through debt and undrawn core credit facility at 30 December 2010:



Covenants
The Group and its associates and joint ventures were compliant with their banking and debt covenants at 30 December 2010. Further details on the various debt covenants are disclosed in the "other information" section in covenant information.

All LTV and ICR covenants on the German debt portfolios were met at 30 December 2010. However, the LTV on the debt maturing in July 2011 is expected to be breached when a formal valuation is called as part of the refinancing arrangements but the expectation is that this will be simultaneously waived as part of the refinancing agreement.

Interest rate hedging
The majority of current borrowing, both at Group level and in the funds and joint ventures, continues to be covered by interest rate swaps. During the year, The Mall and the German joint venture have also entered into forward-dated cap contracts which will hedge some interest rate risk once the current swaps expire.

At 30 December 2010, the see-through valuation of the Group's swaps and caps was a liability of £22.9 million (2009: £28.6 million), which will not be crystallised unless the underlying contracts are closed out before their expiry date. During the year, The Mall, The Junction, X-Leisure, FIX UK and the MEN Arena partnership terminated swaps at a total cost of £39.6 million, of which the Group's share was £6.3 million.

Cash distributions
During the year, the Group received total cash distributions of £9.7 million comprising £5.6 million from The Junction Fund; £3.1 million from the German portfolio; £0.7 million from the X-Leisure Fund and £0.3 million from X-Leisure Limited.

Profitability
Recurring pre-tax profit
The Group's recurring pre-tax profit for the year was £14.9 million, a fall of £2.6 million compared to £17.5 million in the prior year. The recurring pre-tax profit is derived from its two principal segments, which are:

- Asset businesses: comprising its share of net rental income less net interest expense arising from interests in associates, joint ventures and wholly owned entities, in both the UK and Germany; and
- Earnings businesses: comprising fees less fixed overheads earned by the wholly owned CRPM for asset/property management on behalf of The Mall, The Junction and certain joint ventures and wholly owned properties; by the X-Leisure Limited joint venture for non-regulated fund management and asset/property management on behalf of the X-Leisure Fund; and with effect from August 2010 by Garigal Asset Management GmbH associate for asset/property management on behalf of the German portfolio. Earnings businesses also include the operating profit from SNO!zone.

As shown in note 2a to the financial statements, the breakdown of recurring pre-tax profit by segment is as follows:

	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Asset businesses		
UK property investment	**8.2**	11.1
German property investment	**5.1**	6.1
Earnings businesses		
Property management	**5.8**	5.3
SNO!zone	**0.7**	0.9
Non-segment item		
Central costs	**(4.9)**	(5.9)
Recurring pre-tax profit	**14.9**	17.5

Property investment: The recurring pre-tax profit from the three UK funds and other UK properties has fallen by £2.9 million compared to the prior year. This largely reflects the property disposals that have taken place during the period. The recurring pre-tax profit from Germany in sterling terms has fallen by £1.0 million compared to the prior year. This primarily relates to lower rental income following a lease surrender at the Kreuztal property and asset sales at the beginning of the year.

Property management: The recurring pre-tax profit has increased by £0.5 million compared to the prior year. Management fees have fallen by £3.8 million reflecting property disposals by The Mall, the introduction of a fixed fee on The Junction in May 2009, the sharing of X-Leisure fees in the X-Leisure Limited joint venture, and the sharing of the German portfolio fees in the Garigal Asset Management GmbH associate from August 2010. This fall in income has been more than offset by falls in management expense arising from the Group's cost reduction programme.

With effect from 21 July 2010, the fee basis earned by CRPM for asset and property management on The Mall changed from a percentage of property under management to a fixed fee of £4.5 million per annum. This fee is subject to reduction on a sliding scale from 100% to 75% if the valuation of the properties in the Fund falls to between £850 million and £600 million. The fee basis will be effective from 21 July 2010 and is subject to final confirmation from the Mall Bond Security Trustee which is expected shortly. The revised basis is consistent with the trend in the market to introduce fixed fees to cover the direct costs incurred by the managers. It is also expected to provide a greater

alignment of interests between the Fund and its managers. The Group will continue to earn service charge fees and other ancillary income on the existing basis.

In August 2010, the Group acquired a 30% share in Garigal Asset Management GmbH, a German asset and property manager which has taken over responsibility for the asset and property management of the Group's German joint venture. We believe that carrying out the asset and property management through a single German-based entity will provide more effective management of the portfolio, increasing the range of opportunities to monetise the Group's stake and provide a German platform for extending these services to third parties. Whilst the arrangements are expected to enhance recurring profit in the medium term, the Group does not expect to see any significant change until after the middle of 2011 owing to the costs of scaling up the business and the transitional arrangements with the current managers. Garigal Asset Management GmbH will earn a performance fee from the German joint venture on any amount realised on an exit event in excess of an internal rate of return of 12%, subject to a maximum of €15.0 million. The Garigal management team will earn the majority of this fee.

SNO!zone: The recurring pre-tax profit decreased by £0.2 million compared to the prior year. This was a result of a fall in turnover of £1.2 million due to the exceptional impact of the adverse UK weather on visitor numbers across the three sites at the beginning and end of the year during the key winter season, combined in part with the impact of the economic downturn and competition from other operators and venues. The fall in turnover was offset by cost management initiatives and reduced rent on the Braehead facility which reduced expenses by £1.0 million.

Central costs: The central costs have decreased by £1.0 million compared to the prior year principally due to a reduction in the interest expense incurred on the central facility.

Performance fees: No performance fees have been recognised in 2010 on any of the funds (2009: £nil). The basis for calculating performance fees and the current status is disclosed in notes 1 and 36 of the financial statements.

Profit/(loss) before tax

The profit before tax for the year was £46.4 million compared to a loss of £113.4 million in the prior year.

	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Recurring pre-tax profit	**14.9**	17.5
Revaluation and impairment of investment and trading properties	**29.6**	(110.5)
Profit/(loss) on disposal	**4.5**	(9.4)
Deemed disposal	**–**	(7.2)
Revaluation of financial instruments	**0.6**	0.3
Other non-recurring items	**(3.2)**	(4.1)
Profit/(loss) before tax	**46.4**	(113.4)

As well as the recurring pre-tax profit discussed above, the main factors behind the profit in the year were:

Property revaluation gains of £29.6 million most notably reflecting the recovery in valuations in the three UK funds as detailed in the operating review.

Profit on disposal of £4.5 million due to assets sales, most notably in The Mall and The Junction offset by a small loss on disposal in the German portfolio.

Financial instrument revaluation gains of £0.6 million due to gains on the interest rate swaps hedging the German portfolio, partially offset by losses on the interest rate swaps and caps hedging the Group's UK property investments.

Other non-recurring items include impairments, one-off expenses and credits, tax suffered within the joint ventures and the costs of the Group's various management incentive schemes. These items are split out in more detail in note 2 to the financial statements.

Tax

The tax charge for the year was £2.0 million compared to £6.3 million in the prior year. The current tax credit of £0.5 million (2009: charge £3.7 million) is offset by the deferred tax charge of £2.5 million (2009: £2.6 million). The termination of certain interest rate swaps together with the utilisation of brought forward losses has resulted in a small loss overall for the Group in the year. The deferred tax charge is due to the reversal of certain deferred tax assets carried against the liability for interest rate swaps and the recognition of deferred tax liabilities against tenant incentives.

The current tax liability of £5.8 million at year end (2009: £8.1 million) and non-current liability of £10.0 million (2009: £10.0 million) largely reflect the outstanding amount on the settlement concluded with the tax authorities during 2009 in relation to the tax structuring of certain property disposals by the Group in 2004 and 2005. This liability is subject to a deferred payment plan to 31 December 2012.

Financial review continued

Property under management

During the year, property under management fell due to property disposals, which was partially offset by the recovery in property valuations. Details of the properties sold are set out in the operating review. The overall impact on property under management is set out below.

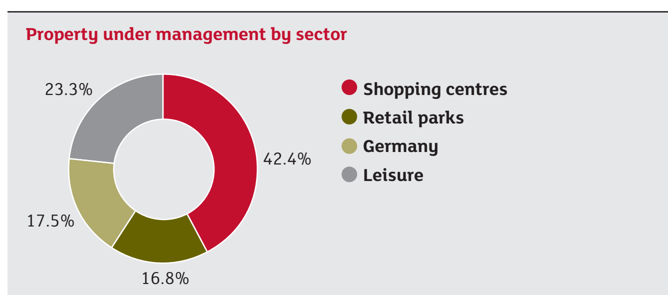
100%	Valuation at 30 December 2009[1] £m	Disposals £m	Other Movements[2] £m	Revaluation £m	**Valuation at 30 December 2010[1] £m**
The Mall	1,317	(323)	28	106	**1,128**
The Junction	572	(128)	9	23	**476**
X-Leisure	519	(58)	(1)	68	**528**
German joint venture	535	(7)	(32)	–	**496**
Other properties	197	(74)	78	3	**204**
Property under management	3,140	(590)	82	200	**2,832**

[1] Valuation excludes adjustments to property valuations for tenant incentives and head leases treated as finance leases and trading properties are included at the lower of cost and net realisable value

[2] Primarily profit or loss on disposal, foreign exchange movements in the German joint venture and the Ilford shopping centre, which was sold by The Mall in June 2010 but which was still managed by CRPM on a short-term contract

The split of property under management by sector is similar to the prior year end at 30 December 2010 is as follows:

Property under management by sector



Foreign currency exposure management

The Group uses forward contracts to hedge against changes in exchange rates in relation to its investment in the German joint venture. At 30 December 2010, this was achieved through a contract for €47.0 million (2009: €47.0 million), hedging 85% of the Group's German investment (2009: 89%).

During the year, the Group took advantage of the weakening of the euro against sterling to close out its existing €47.0 million contract at a small profit and extended the €47.0 million hedge for a further year to 28 April 2011. The strengthening of sterling since then meant that the value of the contract at 30 December 2010 was an asset of £0.6 million (2009: liability of £1.4 million). On 13 January 2011, the Group closed the existing forward contract crystallising a gain of £1.5 million that will be received in April 2011, and entered into a new forward contract to sell €47.0 million on 27 June 2012 at a fixed exchange rate of 1.185, which had the effect of extending the hedging arrangements on its net investment in the German portfolio.

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

Financing strategy

Our financing structure needs to be flexible and cost effective and this is achieved through having cash of £20.7 million (after adjusting for the £5.0 million tax payment as disclosed in note 35) and an undrawn central revolving credit facility of £58 million at 30 December 2010. This gives the Group the scope to fund future property investments as opportunities arise. At an associate and joint venture level, debt has been raised from a variety of sources, with a spread of maturities to mitigate refinancing risk as set out in the debt maturity analysis chart. Debt held in associates and joint ventures is non-recourse to the Group.

Going concern

As stated in note 1 to the consolidated financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Charles Staveley
Group Finance Director

Principal risks and uncertainties

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

The Group carries out a regular review of the major risks it faces and monitors the controls that have been put in place to mitigate them. Property risks are also monitored at various levels within divisional management.

Risk	Impact	Mitigation
Property risks		
Property investment market risks		
• Weak economic conditions and poor sentiment in commercial real estate markets leading to low investor demand and market pricing correction	• Small changes in property market yields have a significant effect on the value of the properties owned by the Group • Impact of leverage could magnify the effect on the Group's net assets	• Geographical and sector diversification of investments • Monitoring of indicators of market direction and pursuit of opportunistic asset sales in those schemes and locations most likely to suffer adverse impact • Review of debt levels and consideration of strategies to reduce if relevant
Tenant risks		
• Tenant insolvency or distress • Prolonged downturn in tenant demand	• Tenant failures and reduced tenant demand could adversely affect rental income revenues, lease incentive costs, void costs, available cash and the value of properties owned by the Group	• Large, diversified tenant base • Review of tenant covenants before new leases signed • Long-term leases and active credit control process • Good relationships with, and active management of, tenants • Void management though temporary lettings and other mitigation strategies
Valuation		
• In the absence of relevant transactional evidence, valuations can be inherently subjective leading to a degree of uncertainty	• Stated property valuations may not reflect the price received on sale	• Use of experienced, external valuers • Rotation of valuers • Valuations reviewed by internal valuation experts
Property management income		
• Fee income, although largely fixed, may still fall based on value of property under management • Contracts allow for termination under certain circumstances, which are largely outside management's control	• Changes in property values, sales of properties or other events not wholly under management's control could result in a reduction in or the loss of property management income	• Monitoring of compliance with terms of contracts • Close dialogue with other investors and stakeholders • Diversification of source of management income • Contracts have now been largely renegotiated to fix income • Reduction of cost base as fee income falls to mitigate loss
Nature of investments		
• The market for the Group's investments can be relatively illiquid • Restrictions on ability to exercise full control over underlying investments in joint ventures or fund structures	• Inability to sell investments or fully control exit/asset sale strategies could result in investments in associates and joint ventures not being realisable at reported values	• Close dialogue with other investors and stakeholders to align strategies and increase influence over the direction of investments • Exercise of significant influence over associates and joint ventures through representation on management boards

Principal risks and uncertainties

Risk	Impact	Mitigation
Funding and treasury risks		
Liquidity and funding		
• Inability to fund the business or to refinance existing debt on economic terms when needed	• Inability to meet financial obligations (interest, loan repayments, expenses, dividends) when due • Limitation on financial and operational flexibility • Cost of financing could be prohibitive	• Capital raising, debt refinancing and asset sales at both Group and fund levels have improved liquidity position, reduced the potential impact of prolonged falls in property values and positioned the Group to respond quickly to the turning point in the cycle • Ensuring that there are significant undrawn facilities • Option of further asset sales if necessary • Efficient treasury management and regular proactive reporting of current and projected position to the Board to ensure debt maturities are dealt with in good time
Covenant compliance		
• Breach of any of loan covenants causing default on debt and possible accelerated maturity	• Unremedied breaches can trigger demand for immediate repayment of loan	• Regular monitoring and projections of liquidity, gearing and covenant compliance • Review of future cash flows and predicted valuations to ensure sufficient headroom
Foreign exchange exposure		
• Fluctuations in the exchange rate between sterling and the euro in respect of the Group's German joint venture	• Adverse impact on sterling valuation of investments and income flows, and losses as a result of the Group having not, or not effectively, hedged its risk	• Exposure minimised by funding the German investment through euro denominated borrowings and hedging a large proportion of the remaining investment through derivatives • Regular monitoring of the effectiveness of hedging and performance of derivative contracts
Interest rate exposure		
• Exposure to rising or falling interest rates	• If interest rates rise and are unhedged, the cost of debt facilities can rise and ICR covenants could be broken • Hedging transactions used by the Group to minimise interest rate risk may limit gains, result in losses or have other adverse consequences	• Regular monitoring of the performance of derivative contracts and corrective action taken where necessary • Use of alternative hedges such as caps
Other risks		
Tax and regulation		
• Exposure to changes in tax legislation or the interpretation of tax legislation and property related regulations • Potential exposure to tax liabilities in respect of previous transactions undertaken where the tax authorities disagree with the tax treatment adopted	• Tax related liabilities and other losses could arise	• Expert advice taken on tax positions and other regulations • Maintenance of a regular dialogue with the tax authorities
Loss of key management		
• Dependence of the Group's business on the skills of a small number of key individuals	• Loss of key individuals or an inability to attract new employees with the appropriate expertise could reduce the effectiveness with which the Group conducts its business	• Key management are paid market salaries and offered competitive incentive packages to ensure their retention • Succession planning for key positions is undertaken • Performance evaluation, training and development programmes are in place to maintain and enhance the quality of staff

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

Significant contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business.

- The asset and property management agreements in relation to The Mall and The Junction are considered to be essential for the Company, because of the fee income they generate for the Company's subsidiary CRPM and the significant influence they allow the Group to assert over the investments. The asset and property management agreements for X-Leisure and the German portfolio are also considered to be essential for the Company because of the fee income they generate for the Company's X-Leisure Limited joint venture and Garigal associate, and the significant influence they allow the Group to assert over the investments.

- The Bank of Scotland £58 million central credit facility which is currently undrawn but provides the Group with liquidity.

- The Company also acts as a guarantor of the Great Northern and Hemel Hempstead loans, the Group's central credit facility, and the rent payable by SNO!zone Braehead.

Certain of these agreements can be terminated in the event of a change of control of the Company as disclosed in the Directors' report.

Directors

From left: Hugh Scott-Barrett, Kenneth Ford

From left: Xavier Pullen, Charles Staveley

Executive directors

Hugh Scott-Barrett, Chief Executive, 52
Hugh has been Chief Executive since April 2008. He was previously a member of ABN AMRO's managing board and served as Chief Operating Officer between 2003 and 2005 and Chief Financial Officer from 2006 to July 2007. Hugh brings over 25 years' banking experience having also worked at SBC Warburg and Kleinwort Benson prior to joining ABN AMRO. He was educated both in Paris and at Oxford University. Hugh is a non-executive director of GAM Holding AG, a Swiss asset management company, and a non-executive director of The Goodwood Estate Company Limited.

Kenneth Ford, Executive Director, 57
Kenneth has been a director of Capital & Regional since 1997 and has Board responsibility for the Group's shopping centre and retail park portfolios. He has been involved in commercial property for over 30 years.

Xavier Pullen, Executive Director, 59
Member of Responsible Business Committee
Xavier has been involved in the property industry for over 30 years and was a founder director of the Company in 1979. Xavier is responsible for supervising the German joint venture and the Group's wholly owned and joint venture investments. Xavier is also responsible for the development of new business initiatives.

Charles Staveley, Group Finance Director, 47
Charles was appointed to the Board as Group Finance Director in October 2008. He qualified as a Chartered Accountant with Arthur Andersen and has additional tax and treasury qualifications. Before joining the Group he was Head of Tax and Treasury at Colt Telecommunications, prior to which he held roles with various other companies including De La Rue plc, Textron Inc and Novar plc.

From left: John Clare, Neno Haasbroek, Philip Newton

From left: Louis Norval, Paul Stobart, Manjit Wolstenholme

Non-executive directors

John Clare, Chairman, 60
Chairman of Nomination Committee
John was Group Chief Executive of Dixons Group plc between 1993 and 2007 and a non-executive director of Hammerson plc between 1988 and 2009. He is currently Chairman of Dreams plc and Jobcentre Plus. He is also a non-executive director of Dyson Limited. John was appointed as a director and Chairman of the Company in June 2010.

Neno Haasbroek, Non-executive, 56
Neno joined Rand Life Assurance in South Africa as property manager in 1980 and became Investment Manager of Allianz Life in 1983. In 1985, he co-founded Baker Street Associates, a group that specialises in property broking, development and management. He is a co-founder and director of Attfund Limited, one of the largest private property investment companies in South Africa and through Parkdev is actively involved in the asset management of Attfund. He is also a director of JSE listed Sycom Property Fund. He has a BSc Building Science degree from the University of Pretoria and an MBA from the University of the Witwatersrand. Neno was appointed a director of the Company in 2009.

Philip Newton, Non-executive, 62
Chairman of Remuneration Committee and member of Responsible Business Committee
Philip is the former CEO of Merchant Retail Group plc, owners of The Perfume Shop, a 150-store chain that he developed from its beginnings. He is Chairman of Windsor Vehicle Leasing Limited, a vehicle finance and fleet management company, and Cornish Kitchen, a fast food retail business with 20 stores. His early career was in the District Valuer's Office and then the property development industry. Philip was appointed as a director of the Company in 2006.

Louis Norval, Non-executive, 55
Louis was a founding member and senior partner of Norval Wentzel Steinberg Quantity Surveyors. Thereafter he joined Baker Street Associates Holdings (Pty) Limited as an executive director. Currently, he is Executive Chairman and Chief Executive of Attfund Limited as well as Attfund Retail Limited. Louis is also Managing Director of the Parkdev Group of companies. Louis also serves on the board of a number of other companies. He graduated in BSc (QS) (Cum Laude) from the University of Pretoria. Louis was appointed a director of the Company in 2009.

Paul Stobart, Non-executive, 53
Senior Independent Director and member of Audit, Remuneration and Nomination Committees
After qualifying as a Chartered Accountant with Price Waterhouse, Paul spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined The Sage Group plc in 1996 as Business Development Director, becoming Chief Executive Officer, UK and Ireland, in 2003 and Chief Executive Officer, Sage Northern Europe in 2011. Paul was appointed as a director of the Company in 2003.

Manjit Wolstenholme, Non-executive, 46
Chairman of Audit Committee and member of Remuneration and Nomination Committees
After qualifying as a Chartered Accountant with Coopers & Lybrand, Manjit spent 13 years at Dresdner Kleinwort Wasserstein, latterly as co-Head of Investment Banking, where she was responsible for managing the division as well as advising clients on a wide range of transactions. She is also a non-executive director of Provident Financial plc, Albany Investment Trust, Future plc and non-executive governor of Manchester Academic Health & Science Centre. Manjit was appointed as a director of the Company in 2006.

Directors' report

Introduction
The directors present their report together with the audited financial statements for the year ended 30 December 2010.

Results and proposed dividends
The consolidated income statement shows a profit on ordinary activities after taxation of £44.4 million (2009: loss of £119.7 million).

The directors continue to believe that dividends should be paid in accordance with the Group's cash flow requirements and anticipated future financial performance, whilst maintaining an appropriate level of dividend cover. The directors do not recommend the payment of a final dividend as cash generated in many of the investments is currently being used either for capital expenditure or to pay down debt.

The directors are committed to resuming dividend payments when they consider it is prudent to do so but the future payment of dividends will be linked for the foreseeable future to the Group's cash generating capability, and will normally be restricted to not more than 50% of operating cash flow less interest and tax, with any final dividend being subject to the approval of shareholders at a general meeting.

Principal activities, trading review and future developments
The principal activity of the Group is that of a specialist property company with a focus on retail investments in the UK and Germany. The Group has two investments in well established UK retail funds; a joint venture with a German retail property portfolio; and a number of interests in leisure and trade park properties in addition to performing asset and property management.

A review of the activities and prospects of the Group is given in the Chairman's statement, the operating review and the financial review.

Business review
The information that fulfils the requirements of the business review including key performance indicators can be found in the operating review and the financial review which are incorporated in this report by reference.

Events after the reporting period are set out in note 35 to the financial statements.

More detail on the financial risks facing the Group is set out in note 22 to the financial statements.

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

Directors
The directors of the Company during the period were: H Scott-Barrett, T Chandos (retired 28 June 2010), J Clare (appointed 29 June 2010), A Coppin (retired 30 September 2010), K Ford, N Haasbroek, P Newton, L Norval, X Pullen, C Staveley, P Stobart and M Wolstenholme.

In connection with the Parkdev Investors' acquisition of Parkdev Firm Placed Shares and pursuant to the Relationship Agreement that the Parkdev Investors and the Company entered into, the Company agreed, upon request, to appoint two non-executive directors nominated by Parkdev to the Board for so long as the Parkdev Investors own 20% or more of the issued ordinary share capital in the Company and one non-executive director to the Board if the Parkdev Investors own less than 20% but not less than 15% of the issued ordinary share capital in the Company. L Norval and N Haasbroek are Parkdev nominated non-executive directors.

In accordance with the Articles of Association, H Scott-Barrett, C Staveley and M Wolstenholme will retire from the Board by rotation and offer themselves for re-election. J Clare, who having been appointed by the Board would vacate office at the conclusion of the AGM also offers himself 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 252 of the Companies Act 2006) are interested in 99,616,720 issued shares representing 28.41% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report.

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.

Substantial shareholdings
In addition to the interests of the directors, the Company has been notified pursuant to Section DTR5 of the FSA Disclosure & Transparency Rules of the following notifiable interests in its issued ordinary share capital at 18 March 2011 (the latest practicable date prior to the issue of this report):

	Number of shares	%
Parkdev International Asset Managers	73,064,197	20.84
Laxey Partners	30,751,263	8.77
Morgan Stanley Investment Management	27,594,233	7.87
Pinelake International	18,924,243	5.40
Standard Life Investments	18,268,824	5.21
APG Asset Management	15,592,426	4.45
Henderson Global Investors	14,000,990	3.99
Legal & General Investment Management	13,275,332	3.79
Rreef Real Estate	12,567,812	3.58

Capital structure

The Company has one class of ordinary shares of 1p each with equal voting rights. In addition, the trustees of the Long-Term Incentive Share Scheme have the right to vote on behalf of the Group's employees. Further information is given in notes 23 and 24 to the financial statements.

The Group has agreements in place which alter upon a change of control of the Company as follows:

- The X-Leisure Limited asset management agreement with X-Leisure can be terminated by the fund partnership if there is a change of control where the beneficial interest in more than 50% of the issued share capital of X-Leisure Limited ceases to be held by a member of the Group and/or AREA.

- The £58 million core revolving credit facility can be called in if there is a change of control of the Company, which is defined to be either 50% of its issued share capital being held by or on behalf of a single entity or group, or more than 50% of the directors immediately following the completion of the Group's capital raising in September 2009 (including the two directors appointed by Parkdev) ceasing to be directors, or to constitute 50% of the board. If this occurs the bank has the right to repayment of the loan.

- In addition, certain taxes could be potentially levied, and certain tax losses could be lost in some circumstances where there are varying degrees of change of ownership of the Group's shares.

The right of The Mall to remove CRPM as manager of the fund if there was a change of control of Capital & Regional plc will be removed once the Mall Bond Security Trustee has issued final confirmation of the fee arrangements which is expected shortly.

Use of financial derivatives

The use of financial derivatives is set out in note 22 to the financial statements.

Charitable donations

The main thrust of charitable support is at local level through the Group's associates and joint ventures. At Group level small donations have been made during the year totalling £2,260 (2009: £4,528).

Payment of suppliers

The policy of the Group is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed, the Group endeavours to make payment within one month of the receipt of the goods or service. At the year end, the Group had an average of 30 days (2009: 53 days) purchases outstanding.

Purchase of own shares

At the balance sheet date, the Company had authority to purchase 14.9% of the issued share capital and this authority will be renewed at 10.0% as per resolution 11 below.

Shares acquired during the year

The Capital & Regional Employee Share Ownership Trust did not acquire any shares in 2010 (2009: 198,076). Details are set out in note 24 to the financial statements.

Compliance with combined code

A statement on corporate governance is set out in the corporate governance report, which is incorporated in this report by reference.

Responsible business

The responsible business statement is set out in the responsible business report on pages 37 to 41, which is incorporated in this report by reference.

Employees

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

During the year, the Group maintained arrangements to provide employees with information on matters of concern to them, to regularly consult employees for views on matters affecting them, to encourage employee involvement in the Group's performance through share schemes, and to make all employees aware of financial and economic factors affecting the performance of the Group.

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 Group appointed consultants, who put such a scheme in place, and also nominated a stakeholder pension provider at that time. Employees have been able to join this scheme since May 2001.

Registered office

The Company's registered office address is 52 Grosvenor Gardens, London SW1W 0AU.

Auditors' information

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' report continued

Explanatory notes to resolutions

Resolutions 1 to 9 and Resolution 14 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 10 to 13 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1 (annual report and accounts)

The directors of the Company must present to the meeting the audited annual accounts and the directors' and auditors' report for the financial year ended 31 December 2010.

Resolution 2 (remuneration report)

The Company's shareholders will be asked to approve the remuneration report set out on pages 27 to 32 of the annual report and accounts at the Annual General Meeting.

Resolutions 3 and 4 (appointment and remuneration of auditors)

The Company must appoint auditors at each general meeting at which accounts are presented to shareholders to hold office until the conclusion of the next such meeting. Resolution 3 seeks shareholder approval to reappoint Deloitte & Touche LLP as the Company's auditors. In accordance with normal practice, Resolution 4 seeks authority for the Company's directors to fix their remuneration.

Resolutions 5 to 8 (appointment and retirement of directors)

The Company's articles of association permit any director appointed by the directors since the date of the last Annual General Meeting to hold office only until the date of the next Annual General Meeting. The director is then eligible for election by shareholders. In addition, one third of the directors are required to retire by rotation each year.

John Clare, non-executive chairman, is standing for election as a director by resolution 5, following his appointment by the directors in June 2010. Hugh Scott-Barrett and Charles Staveley, both executive directors, and Manjit Wolstenholme, a non-executive director, will retire by rotation this year and are proposed for re-election through resolutions numbered 6 to 8.

The Board is satisfied that all of the non-executive directors standing for election and re-election are independent in character and judgement and there are no relationships or circumstances which are likely to affect their character or judgement. Each of the directors has had a formal performance evaluation and the nomination committee believes that the performance of each of them continues to be effective and to demonstrate commitment to the role.

Biographical details of the directors standing for election appear on pages 20 and 21 of this report.

Resolution 9 (authority to allot)

Resolution 9 would give the directors the authority to allot shares in the Company and grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal value of £1,168,592. This represents approximately 33.33% of the ordinary share capital of the Company in issue at 22 March 2011 (being the latest practicable date prior to the publication of this report).

The directors' authority will expire on the conclusion of the next Annual General Meeting. The directors have no present intention to make use of the authority sought under this resolution. As at the date of this report the Company does not hold any ordinary shares in the capital of the Company in treasury.

Resolution 10 (statutory pre-emption rights)

Under company law, when new shares are allotted or treasury shares are sold for cash, they must generally first be offered to existing shareholders pro rata to their holdings. This special resolution gives the directors authority, for the period ending on the date of the next Annual General Meeting to: (a) allot shares of the Company and sell treasury shares for cash in connection with a rights issue or other pre-emptive offer; and (b) otherwise allot shares of the Company, or sell treasury shares, for cash up to an aggregate nominal value of £175,306 (representing in accordance with institutional investor guidelines, approximately 5% of the total ordinary share capital in issue as at 22 March 2011 (being the latest practicable date prior to the publication of this report) in each case as if the pre-emption rights in company law did not apply.

The directors have no immediate plans to make use of these authorities. The board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares for cash on a non-pre-emptive basis in excess of an amount equal to 7.5% of the company's ordinary share capital within a rolling three-year period without prior consultation with shareholders.

Resolution 11 (authority for market purchases of own shares)

Resolution 11 renews the Company's current authority to make limited market purchases of the Company's ordinary shares. The authority is limited to a maximum aggregate number of 35,061,275 ordinary shares (representing 10% of the issued share capital as at 22 March 2011 (being the latest practicable date prior to publication of this report)) and sets out the minimum and maximum prices that can be paid, exclusive of expenses. The authority conferred by this resolution will expire at the conclusion of the Company's next Annual General Meeting or 15 months from the passing of this resolution, whichever is the earlier. Any purchases of ordinary shares would be made by means of market purchase through the London Stock Exchange.

The directors have no present intention of exercising the authority to purchase the Company's ordinary shares. The directors would only purchase shares if, in their opinion, the expected effect would be to result in an increase in earnings per ordinary share and would benefit shareholders generally.

The total number of options to subscribe for new ordinary shares in the Company as at 22 March 2011 was nil following the expiry of the outstanding 1998 options during the year.

Resolution 12 (adoption of new articles of association)

It is proposed in resolution 12 to adopt new articles of association (the "New Articles") in order to update the Company's current articles of association (the "Current Articles") primarily to take account of the implementation of the Companies (Shareholders' Rights) Regulations 2009 and the implementation of the final parts of the Companies Act 2006.

The principal changes introduced in the New Articles are summarised on pages 109 to 111. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or the Companies (Shareholders' Rights) Regulations 2009 or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills have not been noted in the summary. The New Articles showing all the changes to the Current Articles are available for inspection as detailed in the Notice of the AGM.

Resolution 13 (notice of general meetings)

This resolution is proposed to allow the Company to call general meetings (other than an AGM) on not less than 14 clear days' notice.

Changes made to the Companies Act 2006 by the Companies (Shareholders' Rights) Regulations 2009 have increased the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. AGMs will continue to be held on at least 21 clear days' notice.

The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. It is noted that the changes to the Companies Act 2006 also mean that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

Resolution 14 (ratification of previous payments to non-executive directors)

The Current Articles contain a limit on the Company paying fees to directors (other than executive directors) in excess of £150,000 per annum, which was approved by shareholders in 1997, (such amount being increased in accordance with increases in the Retail Price Index from the date of the adoption of the Current Articles) other than with the approval of shareholders by ordinary resolution.

In reviewing the Current Articles, it has come to the attention of the directors that the Company has inadvertently exceeded this limit in the financial year of the Company ending on 30 December 2010 and has (or may have) done so in previous financial years of the Company. The amounts paid to non-executive directors in any financial year have been set out in the annual reports and financial statements of the Company for the relevant year.

The purpose of resolution 14 is to approve and ratify the decisions of the current and former directors of the Company to make such payments.

In accordance with section 239 of the Companies Act 2006, the votes of the directors of the Company, and of any members connected with them, in favour of this resolution will be disregarded in determining whether this resolution is passed.

By order of the Board

F Desai
Company Secretary
22 March 2011

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the operating review and financial review, which are incorporated by reference into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

H Scott-Barrett
Chief Executive

C Staveley
Group Finance Director
22 March 2011

Directors' remuneration report

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee ("the Committee") appointed by the Board, consisting entirely of non-executive directors, which is constituted in accordance with the recommendation of the Combined Code. P Newton acts as Chairman, with M Wolstenholme and P Stobart the other members of the Committee. The terms of reference of the Remuneration Committee are available for inspection on the Group's website.

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 Group's share schemes. Advice from independent external advisers is obtained when required. During the year, the Committee has sought advice from PricewaterhouseCoopers in respect of the amendments to the Group's 2008 LTIP scheme.

Remuneration policy

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. The basic salaries have been set in the past with reference to the FTSE 350 Real Estate comparative group and this will be reviewed by the Remuneration Committee on an ongoing basis.

The directors' annual salaries and fees are shown below:

	2010 £000	2009 £000
Executive directors		
H Scott-Barrett	**300**	340
X Pullen	**200**	292
C Staveley	**250**	260
K Ford	**250**	282
Non-executive directors		
T Chandos *	**105**	125
A Coppin *	**39**	42
N Haasbroek	**33**	36
P Newton	**39**	42
L Norval	**33**	36
P Stobart	**39**	42
M Wolstenholme	**39**	42

* Retired from the board during the year

With the exception of H Scott-Barrett, who has also given up his entitlement to cash in lieu of pension contributions of £60,284, all other benefits, where relevant, remain unchanged.

J Clare was appointed as the new Chairman on 29 June 2010. His annual fee is £125,000.

Annual bonus scheme

The Committee may award cash bonuses to executive directors up to 100% of salary based on the Committee's independent assessment of the Group's financial performance during the year and the individual contribution made by each executive director. Individual contributions are assessed on business building (success in growing the business), financial results (total return and return on equity), and team building (indicated by low staff turnover and progress in developing key individuals). No bonuses were awarded to the executive directors for 2010.

Incentive schemes

Current incentive schemes

The Group has six incentive schemes under which awards subsisted during the year:

Old incentive schemes

- The 1998 Share Option Schemes (the "1998 Scheme")
- The Long Term Incentive Plan (the "2002 LTIP")

New incentive schemes set up in 2008

- Matching Share Agreement for H Scott-Barrett (the "Matching Share Agreement")
- The Co-Investment Plan (the "COIP")
- The Save As You Earn Plan (the "SAYE Scheme")
- The Long Term Incentive Plan (the "2008 LTIP")

The final options under the 1998 Scheme lapsed during the year without any options being exercised. The shares awarded under the 2002 LTIP lapsed at the start of the year as the relevant performance conditions were not met.

A summary of the principal features of the 2008 LTIP, the COIP and the SAYE Scheme is set out under "Audited information" below.

Matching Share Agreement for H Scott-Barrett

As part of the negotiation to secure his appointment and also to demonstrate his commitment to the Group, H Scott-Barrett agreed to purchase shares in the Company on condition that he was provided with certain matching shares. Accordingly, H Scott-Barrett was granted an award of matching shares in accordance with Rule 9.4.2 of the Listing Rules. The principal terms of the incentive arrangement are set out below.

The Matching Share Agreement was entered into by the trustee of the Capital & Regional plc Employee Share Ownership Trust 2002 (the "Trustee") and H Scott-Barrett on 9 March 2008. Under the Matching Share Agreement, H Scott-Barrett agreed to acquire between 100,000 and 200,000 shares in the Company ("Acquired Shares") within 30 days of the announcement of the Group's results for the period ended 30 December 2007. H Scott-Barrett acquired 150,000 shares on 11 March 2008.

For every Acquired Share, the Trustee agreed to provide a maximum of three matching shares ("Matching Shares") at the end of a three-year vesting period (the "Vesting Period"), as follows:

- one share in the Company without a performance condition, ("Match 1"); plus
- up to one further share in the Company subject to a performance condition ("Match 2"); plus
- up to one further share in the Company subject to a tougher performance condition ("Match 3").

H Scott-Barrett has since waived his entitlement to any awards under Match 2 and Match 3.

Following the Group's Capital Raising in September 2009, the shares subject to the Matching Share Agreement were adjusted by the same factor used in the rebasing of the SAYE Scheme. The award under Match 1 after adjustment is therefore now 302,055 shares.

The award under Match 1 vested on 11 March 2011 and 302,055 Matching Shares will be transferred to H Scott-Barrett following the announcement of the Group's final results.

Pension arrangements

The Group makes contributions, at proportional rates to basic salary, to defined contribution pension schemes of each executive director's choice, except in the case of X Pullen where a salary supplement of £51,773 was paid in lieu of pension contributions.

Other benefits

Benefits consist of private medical insurance cover, permanent health insurance cover, critical illness cover and life cover.

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. 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:

H Scott-Barrett	9 March 2008
X Pullen	28 October 1993
K Ford	17 May 1996
C Staveley	1 October 2008

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

X Pullen is a non-executive director for Brandeaux, a privately owned fund management group. H Scott-Barrett is a non-executive director of GAM Holding AG, a leading Swiss asset management company. The Group does not consider that these appointments involve significant commitment or that the roles conflict with their duties to the Group. Any earnings received from the appointments are kept by the individuals concerned and have not been disclosed to the Group.

Chairman and non-executive directors

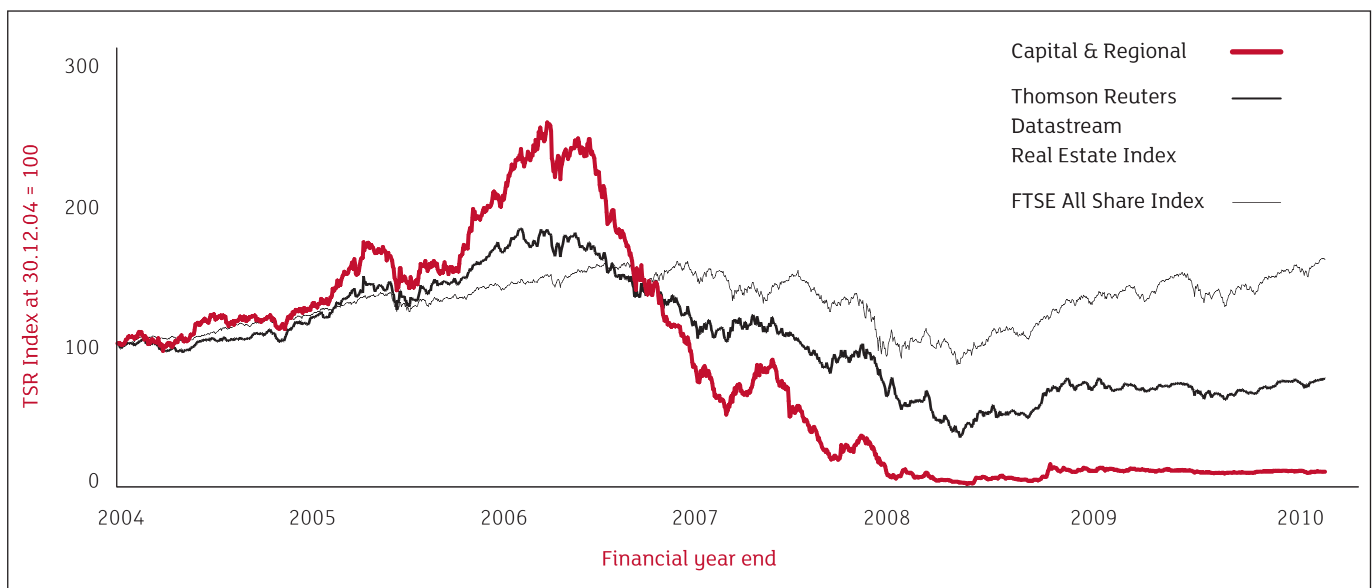
Each non-executive director received fees of £33,000 per annum in 2010. The Chairmen received additional fees of £92,000 per annum, while the Senior Independent Director and the Chairmen of each of the Audit, Remuneration and Responsible Business Committees received an additional fee of £6,000 per annum. The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes.

Their remuneration comprises a standard director's fee and a fee, where relevant, for additional responsibilities. The remuneration provided takes into account the level of responsibility, experience and abilities required and the marketplace for similar positions in comparable companies. In certain circumstances, if there is a requirement for extra work to be carried out by a non-executive director, an additional fee is paid by the Group to that director from time to time. Details of the non-executive directors' fees are set out under Audited information below.

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

Performance graph

The 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. In the past, the Group has used the FTSE Real Estate Index but as this is no longer available, since 2009 the Group has used The Thomson Reuters Datastream Real Estate Index instead. Performance is measured by total shareholder return (share price growth plus dividends paid).



Audited information

2002 LTIP

Shares which were conditionally awarded to the directors under the 2002 LTIP are set out below:

	Awards outstanding at 30 December 2009	Date of award	Market price on date of award (p)	End of qualifying period	Awards outstanding at 30 December 2010
K Ford	16,816	23/04/2007	1,561.0	31/12/2009	–
X Pullen	17,489	23/04/2007	1,561.0	31/12/2009	–

The relevant performance conditions were not met so none of the outstanding awards vested and all lapsed at the start of the year.

2008 LTIP

The 2008 LTIP was set up to replace the previous LTIP but no awards were made under this scheme in 2008 or 2009. The Remuneration Committee concluded that the 2008 LTIP scheme did not fully meet its objectives and during the year shareholder approval was granted for certain amendments.

The rules of the 2008 LTIP originally permitted awards of up to 150% of salary on an annual basis (up to 200% in exceptional circumstances) but were amended to allow one-off awards to be made up to 360% of salary. The Remuneration Committee decided to make one-off awards covering the three-year period 2010 to 2012 to address the need for management retention and incentivisation, while also reflecting the continuing turnaround through which senior management is leading the Company.

The first awards under the LTIP were based on achieving Total Shareholder Return ("TSR") targets over a three-year period, based on the average TSR over a 30-day period prior to the date of award and date of vesting. The targets and vesting levels are:

Growth in TSR over period	Percentage of award vesting
Under 12% per annum	Nil
12% per annum	20
Between 12% and 40% per annum	Pro-rata between 20 and 100
40% per annum or above	100

Only 50% of the vested award will be capable of exercise at the end of the three-year performance period. The remaining 50% will be deferred for a further twelve months in order to provide a further "lock-in" for participants.

On 14 June 2010 the Trustees of the LTIP granted awards to the following executive directors:

Director	Shares awarded
H Scott-Barrett	3,000,000
K Ford	2,000,000
X Pullen	2,000,000
C Staveley	2,000,000

COIP

The COIP was designed to be operated in conjunction with the Group's annual bonus arrangements, with the Remuneration Committee inviting certain key employees to acquire shares in the Company from a proportion of their net (post tax) annual bonus and lodge such shares for the purposes of the COIP (the "Lodged Shares").

Participants received an award (the "COIP Award") enabling them to acquire additional matching shares at the end of a performance period based on the number of Lodged Shares which had been acquired, subject to the satisfaction of performance conditions and continued employment.

It was envisaged that the maximum investment eligible for a matching award would normally be 30% of gross basic salary; however, individuals who received a payout from the Group's previous Capital Appreciation Plan ("CAP") could invest this payment up to a maximum of 100% of their gross salary.

The number of matching shares which were awarded to a participant was limited to two shares for every one Lodged Share for executive directors and one share for every one Lodged Share for other employees.

COIP Awards may only normally be made in the period of 42 days beginning on the dealing day following the date on which the COIP is adopted by the Group, or within the period of 42 days beginning on the dealing day following the announcement of the Group's interim or final results, or otherwise at other times if the Remuneration Committee considers there are exceptional circumstances.

No COIP Award may be made to a participant during a period proscribed for dealings in shares by directors or certain employees of the Group whether by the Listing Rules of the United Kingdom Listing Authority or otherwise, except where this is permitted under the Model Code or the Group's own code on dealing by directors and employees in its securities. A COIP Award is personal to the participant and not transferable (other than on death when it can be exercised by the participant's personal representatives). No COIP Award can be made more than ten years after adoption of the COIP.

At the time of making a COIP Award the Remuneration Committee set performance targets to be satisfied before it could vest. Such targets were normally to be measured over a three-year period. If an event occurred which caused the Remuneration Committee to consider that an amended target would be a fairer measure of performance and not materially less difficult to satisfy, the performance targets could be amended.

The Remuneration Committee's overall policy was to make awards under the COIP using performance conditions and target levels which were believed to be stretching and provided value to the participants commensurate with the performance achieved. The policy when deciding on performance measures was to use measures the participants could influence by their actions, in order to provide effective motivation. The policy was to make COIP Awards annually and, as has been mentioned above, to ensure that the targets were set at the time of award with regard to prevailing conditions and that all the equity incentive arrangements in which an employee participates were considered as one whole.

COIP Awards were subject to the following performance targets based on Total Shareholder Return (TSR). The award had two parts each giving a 2:1 match for executive directors and a 1:1 match for other participants.

- 100% of the first half of the matching award to vest for upper quartile performance when the Company's TSR was compared to the TSR of the constituent companies of the FTSE Real Estate sector, with only 20% of this part of the award vesting for median performance. Nothing to vest if performance was below this level. Straight-line vesting would occur between median and upper quartile. None of this part of the award to vest if the Company's absolute TSR was less than 8% per annum over the Vesting Period.

- 100% of the second half of the matching award to vest for upper decile performance when the Company's TSR was compared to the TSR of the constituent companies of the FTSE Real Estate sector, with no part of this award vesting if performance was below this level. None of this part of the award to vest if the Company's absolute TSR was less than 15% per annum over the Vesting Period.

No re-testing of the performance criteria could occur.

The Lodged Shares cannot be forfeited by participants regardless of performance as these have already been "earned" through the mechanism of the annual bonus or CAP and purchased with post-tax income. Any increases/decreases in the value of the Lodged Shares will therefore be received/borne by the participants. However, the Lodged Shares must be held for at least the duration of the performance period otherwise any matching award may be forfeited. If a participant, without the consent of the Remuneration Committee, disposes of shares in the Company which he held at the date of grant of a COIP Award, the Remuneration Committee may, in its absolute discretion, decide that such disposal equates to a disposal of all or any of the Lodged Shares and that all or part of a COIP Award shall not vest but shall be forfeited.

The Lodged Shares are owned by the participants who shall be entitled to exercise the voting power attaching to those shares and shall be entitled to receive dividends.

The award price will be determined by the Remuneration Committee. If, as anticipated, awards will be satisfied by the transfer of shares purchased on-market by trustees, the award price may be nil. The award price will not be less than the nominal value of a share where awards will be satisfied by the issue of shares directly to the award holder. Flexibility has been retained for the award price to be set at any other value (for example at the market value of a share).

A COIP Award will vest only at a time or times between the third anniversary of its date of award and the tenth anniversary of that date, except in certain circumstances.

In 2009 and 2010 no recommendation was made by the Committee to the Trustees of the COIP for a grant of matching shares and the Committee has agreed that no new awards will be made in the near future.

Awards under the COIP are outstanding to the following executive directors:

Director	Shares purchased	Maximum matching award
K Ford	125,000	503,425
X Pullen	100,000	402,740
C Staveley	25,000	100,685

SAYE Scheme

Generally, all UK resident and ordinarily resident employees and executive directors of a participating company (who in the case of directors are contracted to work at least 25 hours per week for the Group) are eligible to participate in an SAYE scheme. The Grantor will have the discretion to set a minimum service requirement of up to five years in order for an employee or executive director to be eligible to participate in a particular offer under the SAYE Scheme. All executive directors have waived their right to participate in the SAYE Scheme.

When an employee accepts an invitation to participate in an issue of SAYE Scheme options, he will be required to enter into a savings contract for a period of three or five years under which he must save between £5 and £250 per month (or such other minimum or maximum amount determined by the directors and permitted by legislation). The £250 limit is reduced by any other savings contract linked to this or any other savings related share option scheme. These contributions will be deducted from the employee's salary.

If the participant ceases to make contributions before the third or fifth anniversary of the commencement of the savings contract, the option will lapse, except in the case of a deferral of contributions for a period of up to six months.

The option exercise price shall be determined by the directors and will be not less than 80% of the market value of a share on the dealing day, or the average of up to five dealing days, immediately prior to the date of invitation (or, in the case of an option where the Group has determined that the option exercise will be satisfied by the issue of shares directly to the participant, the exercise price shall not be less than the nominal value of a share, if higher).

During the period of six months following the end of the savings contract, the participant may exercise his option to acquire, at the exercise price, ordinary shares up to the total value of his monthly savings contributions (plus any bonus or interest paid thereon where appropriate). Alternatively, the participant may withdraw his contributions and any bonus or interest.

If a participant ceases to be employed within the Group during the savings period his option will lapse except where cessation is due to death, injury, disability, redundancy or retirement or as a result of the Company or the part of the business by which the participant was employed ceasing to be a member or part of the Group, in which case the participant will be able to exercise his option within six months (or 12 months in the case of his personal representatives after death) from the date of cessation of employment, but only to the extent of his total savings plus any interest or bonus accrued.

Directors' remuneration report continued

In the event of a takeover, reconstruction, amalgamation or voluntary winding up of the Company during the savings period, participants may exercise options early and within a specified period to the extent of their total savings plus any interest or bonus accrued to the date of exercise. If the acquiring company agrees, the option may be exchanged for an option over shares in the acquiring company.

Following the Group's Capital Raising in September 2009, the share price of the options awarded under the SAYE Scheme was adjusted from 46p per share to 22.83p per share in accordance with a methodology approved by HMRC.

The SAYE scheme was set up in 2008 when employees were invited to participate in the scheme. No invitations were made in 2009 or 2010.

Directors' emoluments

	Salary and fees £000	Benefits £000	Pension £000	**2010 Total £000**	2009 Total £000
Executive directors					
H Scott-Barrett	300	2	–	**302**	402
K Ford	250	3	42	**295**	339
X Pullen	200	3	51	**254**	359
C Staveley	250	2	39	**291**	301
Non-executive directors					
T Chandos	51	–	–	**51**	125
J Clare	63	–	–	**63**	–
A Coppin	29	–	–	**29**	42
N Haasbroek	33	–	–	**33**	11
P Newton	39	–	–	**39**	41
L Norval	33	–	–	**33**	11
P Stobart	39	–	–	**39**	42
M Wolstenholme	39	–	–	**39**	42
Previous executive director					
PY Gerbeau	–	–	–	**–**	212
Previous non-executive director					
H Mautner	–	–	–	**–**	18
Total	1,326	10	132	**1,468**	1,945

Interests in shares

The directors and, where relevant, their connected persons (within the meaning of Section 252 of the Companies Act 2006) were beneficially interested in the ordinary share capital of the Company at the dates shown in the table below.

	30 December 2010 Shares	30 December 2009 Shares
H Scott-Barrett	**825,000**	825,000
X Pullen	**2,796,181**	2,796,181
K Ford	**1,745,181**	1,745,042
C Staveley	**233,121**	233,121
T Chandos	**n/a**	420,312
J Clare	**160,000**	n/a
A Coppin	**n/a**	10,050
N Haasbroek	**93,401,500**	92,705,500
P Newton	**163,800**	13,800
L Norval	**93,608,750**	92,909,750
P Stobart	**–**	–
M Wolstenholme	**84,687**	84,687

L Norval and N Haasbroek are each beneficially interested in the shares registered in the name of Parkdev International Asset Managers (Pty) Limited and Pinelake International Limited.

There have been no changes to the directors' interests in shares between 30 December 2010 and the date of this report, except H Scott-Barrett who has acquired an additional 302,055 shares on 11 March 2011 in connection with the vesting of Match 1 of his Share Matching Agreement.

Interests in share options

Share options held by directors were as follows:

	At 30 December 2010	At 30 December 2009	Exercise price (p)	Earliest exercise date	Latest exercise date	Exercise condition met
K Ford	**–**	50,000	211.5	13/09/03	13/09/10	Yes
X Pullen	**–**	50,000	211.5	13/09/03	13/09/10	Yes

The above options lapsed during the year.

During the year, the share price ranged from a high of 39.75p to a low of 29.25p. The share price at 30 December 2010 was 32.75p.

No share options were granted during 2010 and no further awards can be made under these schemes.

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
22 March 2011

Corporate governance report

Introduction

The Board of directors is accountable to the Company's shareholders for the management and control of the Group's activities and is committed to high standards of corporate governance. This report and the directors' remuneration report describe how the Company complies with the provisions of the June 2008 Financial Reporting Council Combined Code on Corporate Governance ("the Combined Code").

Statement of compliance

The Company has complied throughout the year ended 30 December 2010 with the provisions set out in Section 1 of the Combined Code with one exception being the fact that L Norval and N Haasbroek as non-executive directors are not considered independent for the purposes of the Combined Code as they represent a significant shareholder of the Company. Therefore the Board is not in compliance with the Combined Code at the date of this report as half the Board members are not independent.

The Board has considered this matter and considers that this non-compliance with the Combined Code does not impede the effective operation of the Board in light of the strength and skills of the independent non-executive directors of the Board. However, the Board will keep under close review the balance of directors on the Board and may appoint one or more further independent non-executive directors in due course. This section applies to the Capital & Regional plc Group and all its subsidiaries.

Application of the principles

The Company has applied the principles set out in section 1 of the Combined Code, including both the main principles and the supporting principles, by complying with the Combined Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the directors' remuneration report.

The Board of directors

Details of the directors are set out before the Directors' report. The Company is controlled through the Board of directors which comprised the Chairman, four executive and five non-executive directors. During the year, T Chandos retired on 28 June 2010 and A Coppin retired on 30 September 2010, while J Clare was appointed on 29 June 2010.

Board balance and independence

The Board and Nomination Committee are satisfied that the current Board composition provides an appropriate balance of power and authority within the Company. The Board believes that all the non-executive directors excluding L Norval and N Haasbroek are independent. The Nomination Committee will however continue to review this position. All the Company's non-executive directors act independently of management. 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 2010.

The Company has well-established differentiation between the roles of Chairman and Chief Executive. Written terms of reference, which have been approved by the Board, are available for inspection on the Group's website.

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. The other commitments of the Chairman are detailed in the directors' biographies.

Board effectiveness

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. The executive directors take operational decisions and also approve certain transactions within defined limited parameters. An Executive Directors' Committee 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 three 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, Remuneration Committee and Nomination Committee consist solely of non-executive directors and meet at least twice a year.

Re-election

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

Performance evaluation

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

Corporate governance report

Information and professional development

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

Induction training is given to all new directors appointed to the Company and consists of an introduction to the Board, onsite visits to properties managed by the Group, an 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, and their sharing of knowledge and experiences gained from a range of commercial backgrounds.

Nomination Committee

The Committee comprises J Clare (Chairman), P Stobart, and M Wolstenholme. T Chandos was Chairman of the Committee until his retirement on 28 June 2010, when he was replaced by J Clare. The Nomination Committee meets as required to select and recommend to the Board suitable candidates for both executive and non-executive appointments to the Board. On an annual basis, the Nomination Committee also considers succession planning for the Board. The Board members are given an opportunity to meet the individual concerned prior to any formal decision. The terms of reference of the Nomination Committee are available for inspection on the Group's website.

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.

Board meeting attendance

	Scheduled	Ad hoc	Total
Number of meetings	4	3	7
Attended by:			
T Chandos *	2	1	3
J Clare *	1	2	3
A Coppin *	2	1	3
K Ford	4	3	7
N Haasbroek	4	3	7
P Newton	4	2	6
L Norval	4	2	6
X Pullen	4	3	7
H Scott-Barrett	4	3	7
C Staveley	4	3	7
P Stobart**	3	3	6
M Wostenholme	4	3	7

* These directors became eligible to attend meetings on appointment to the Board or were no longer eligible to attend once they had ceased to be directors and they attended all of the meetings they were eligible to attend.

** P Stobart chaired one scheduled Board meeting

Other committee meeting attendance

	Audit Committee	Remuneration Committee	Nomination Committee	Responsible Business Committee
Number of meetings	5	2	3	3
Attended by:				
T Chandos *				
J Clare *			1	
A Coppin *	3			2
P Newton		2	3	
X Pullen				3
P Stobart	5	1	3	
M Wolstenholme	5	2	3	

* These directors became eligible to attend meetings on appointment to the Board or were no longer eligible to attend once they had ceased to be directors and they attended all of the meetings they were eligible to attend.

On occasion, Board meetings or committee meetings may be missed due to circumstances beyond the director's control.

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 statement of remuneration policy and details of each director's remuneration are set out in the directors' remuneration report.

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. The Company also attends roadshows in Europe, and participates in sector conferences. In addition, following the announcement of final 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, regular announcements of fund unit valuations provide an update on the progress of the business. Registered shareholders are sent copies of both the annual report and the interim report. The Group's website is also kept up to date with all announcements, reports and shareholder circulars.

Accountability and audit

Financial reporting

The Group's annual report 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 Group's position and prospects.

Internal control

The Board is responsible for maintaining a sound system of internal control and risk management to safeguard shareholders' investment. 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. The key risks identified are set out in the principal risks and uncertainties section.

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 Group and the Board is satisfied that its process accords with the guidance in this document. This process has been in place for the year under review 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.

The Group has undertaken a comprehensive risk and controls review for the year involving interviews with each divisional management team, which has identified the principal risks facing the Group and its individual divisions. An updated risk map and internal control matrix have been produced for each division in the Group, clearly outlining the principal risks and the actions being taken to manage those risks to the desired level. Each risk has been evaluated in terms of its impact on the business and the likelihood of it occurring, and responsibility for the management of each risk has been clearly identified.

Other key features of the Group's system of internal control are as follows:

- Defined organisational responsibilities and authority limits exist 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 with regular reports from the Fund Managers of The Mall, The Junction and X-Leisure funds and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.

The Group has established a whistle-blowing policy to enable employees to raise issues of concern in relation to dishonesty or malpractice on an entirely confidential basis.

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

Audit Committee

The Audit Committee usually consists of three non-executive directors. M Wolstenholme acted as Chairman, with P Stobart acting as another member throughout the year. A Coppin was a member until his retirement from the Board on 30 September 2010. A replacement for A Coppin is under review. The qualifications of the Audit Committee members are set out in the directors' biographies.

The terms of reference of the Audit Committee are available for inspection on the Group's website. The role of the Audit Committee is to maintain a relationship with the Group's external auditors and to review, in depth, the Group'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 by its external auditors. The Group 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 in note 7b to the financial statements. The Group's aim is always to have any non-audit work involving the Group's external auditors carried out in a manner that affords value for money and ensures independence is maintained by monitoring this on a case-by-case basis.

The Group'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 reappointment of the Group's external auditors. In order to maintain independence the audit partner of the Group's external auditors is subject to rotation at regular intervals.

The Audit Committee normally meets five times a year; there is one meeting to approve the audit plan and two for each of the interim and final announcements. The first of the pre-announcement meetings is held early enough to allow the Committee members to have input into the presentation of the financial statements. The Chairman of the Audit Committee reports back to the Board on the key conclusions.

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

- Financial reporting: during the year the Committee reviewed the interim and annual financial statements. The Committee received a report from the external auditors setting out accounting or judgmental issues which required its attention, and considered papers prepared by management both on these issues and on the impact of any changes in accounting standards. The auditors' reports were based on a full audit (annual report) and a high level review (interim report) respectively. The Committee also advised the Board on a number of other matters.

- Internal controls and risk management: the Committee met with the external auditors to deal with any significant internal control matters. In the year under review the Committee met with the external auditors on five occasions. The Committee also approved the periodic risk reviews that were carried out by the Group.

- Internal audit: The Group does not have an internal audit function but carries out periodic control reviews, the results of which are discussed with the Committee. The Committee will continue to review the position, but the belief at present is that the current size and complexity of the Group does not justify establishing an internal audit function.

Going concern

In compliance with the Listing Rules of the Financial Services Authority and with reference to the guidance issued by the Financial Reporting Council in October 2009, 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 believes that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the financial statements are prepared on a going concern basis. Further details are included in note 1 to the financial statements.

F Desai
Company Secretary
22 March 2011

Responsible business

Overview

The Group's aim is to remain at the forefront of innovative responsible business in its sector and to ensure that the impact is positive in the following four key areas: the Marketplace; the Environment; the Workplace and the Community. We work closely with some of our specialist support partners, The Carbon Trust; British Council Of Shopping Centres (BCSC); Investors in People; Enterprise UK; and Royal Society for the Prevention of Accidents (ROSPA).

The information below summarises the achievements over the last year, including highlights, performance against objectives previously stated, and new targets for 2011.

Responsible Business Committee

The Responsible Business Committee provides the strategic direction and a forum for support to those accountable for responsible business at the operating level. The Responsible Business Committee met three times during 2010. The Committee consisted of two Board directors, A Coppin (Chairman) and X Pullen, as well as representatives at the operating level. A Coppin was Chairman of the Committee until his retirement on 30 September 2010 when he was replaced by P Newton. The Committee reports regularly to the Board.

The marketplace

The Group's aim is to engage with its customers, to understand their needs and identify ways of improving their and our responsible business performance together. We recognise the positive impact our suppliers can have on our sustainability efforts and will continue to work in partnership to deliver our goals.

The Group's stated priorities for 2010 were:

1. To continue to monitor customer care level through focused customer research.

2. To launch a selection of best practice initiatives as identified through the Capital & Regional Safe audit process.

3. To retain the ROSPA Gold Award status.

To meet these it has:

1. Introduced a new internally managed scheme for all of its shopping centres. We previously delivered a scheme where all our retailers were surveyed by an external mystery shopper company. We believe that the expertise we have developed within the business allows us to conduct this programme more effectively in house. All retailers within the Mall centres were mystery shopped together with the customer facilities each Mall provides. All results were shared with our retailers and on site teams and the information continues to drive our ongoing focus on top quality customer service. As a result of the success of this new programme we will be undertaking this again in 2011.

Project Beam was undertaken in five Mall centres in 2010. This was a detailed shopper survey covering 500 face-to-face interviews, intercepting customers as they exited the Malls. The fieldwork took place in June 2010 and a total of 2,468 interviews were completed. The results helped us to understand the following profile of shoppers:

- Determine travel time/mode of transport.
- Establish main reason for visit.
- Determine shopper behaviour.
- Measure attitudes to the Mall services.

This information was then utilised to ensure our retail offer was fulfilling the consumer needs identified and it was also shared with retailers to assist with making space leasing decisions.

2. Continued the development of the Capital & Regional Safe operating system in 2010 with the addition of the on line accident and incident reporting system, which allows the accurate identification and monitoring of trends. The system was also launched within the Junction portfolio of retail parks, further securing business reputation as a leader in this field. All shopping centres and retail parks received the annual compliance audit by an independent risk management company, with 12 shopping centres achieving Gold award status, two of which with a maximum 100% score, and seven retail parks achieving Gold award status out of the 12 audited.

3. The Group's shopping centre business received the ROSPA Gold Award for the fourth successive year.

Other 2010 marketplace highlights

The Junction carried out and concluded a detailed health and safety compliance audit on all 38 contractors that are used across the Junction portfolio and was also awarded the safe parking accreditation "Park Mark" for all sites, a recognised standard awarded by the Association of Chief Police Officers. All retail parks have state-of-the-art CCTV which is centrally managed and monitored to improve safety and security for retailers, consumers and staff.

Responsible business continued

The sustainability accreditation scheme EnviroMall engages and informs customers and suppliers each year on the importance of taking proactive steps to reduce the impact shoppers and a shopping centre can have on the environment. This included:

Battery recycling working with Battery Back, where The Mall proactively promoted and encouraged people to recycle their batteries as part of the new European directive on battery recycling introduced in February 2010.

Each individual Mall proactively works with local retailers and shoppers on a range of environmental issues, for example, providing Christmas card recycling bins and a fashion show to promote recycled fabrics.

The MallSecure contract continued to deliver an excellent overall security service to our Malls recording an annual average performance score against the contract KPI's of 94%.

A partnership with Disability Snowsport UK enabled SNO!zone to offer lessons and recreational skiing to large numbers of disabled skiers in 2010. Working with Silent Snow, SNO!zone also offered lessons to the deaf and hard of hearing customers for the first time in 2010.

2011 priorities

- To continue to obtain regular customer and retailer feedback and respond accordingly.
- Maintain close retailer relations, understand retailer requirements and encourage inward investment from retailers into our town centres through letting and reconfiguration of space.
- Achieve a ROSPA Gold Award in 2011 for five successive Gold awards.
- Support the Health and Safety Executive (HSE) Workplace Transport Initiative, particularly, in relation to our service areas, by rolling out the use of the safety checklist tool.
- Increase awareness of the impact of slips, trips and falls utilising the HSE Shattered Lives Campaign in partnership with our retailers with the objective to reduce accidents at all sites.

The environment

Capital & Regional continues to believe a proactive approach to tackling our impact on the environment is a vital element of our work. For many years we have worked hard to reduce our impact on the environment in the three key areas of waste, water and energy. In addition, we continue the focus on reducing the carbon footprint of every one of our properties. We have long recognised that any development activity should mirror this and have proactively ensured we minimise energy consumption and mitigate the effects of climate change throughout the design, refurbishment or building phase.

The Group's stated priorities for 2010 were:

1. To monitor and focus on reducing carbon output across all of the Group's operations.
2. For SNO!zone to consider further economical use of buildings management systems and to reduce energy consumption by a further 5%.
3. Across the Malls, to deliver the objective as per the Environmental Impact Improvement Plan. These include reducing energy use by 5%, water use by 5% and recycling 65% of waste.
4. Across the Malls, to automate environmental data collection for electricity, gas and water usage, to prepare the business for compliance with the carbon reduction commitment regulations and to retain the Carbon Trust Standard.
5. Through the MallClean initiative, to maintain high standards of cleaning and average monthly brand standard performance measurement scores of at least 92% whilst re-engineering the contract and commercial packages to create efficiencies and savings.

To meet these it has:

1. Monitored carbon output through improved data capture and reviewing site by site performance to ensure targets are being met.
2. SNO!zone continued with chiller shut downs at all three sites. This enabled reductions on electricity usage within the ski box which equated to £28,000 worth of savings. Other energy reductions were made through a change in slope lighting at Castleford and voltage stabilising at Milton Keynes. SNO!zone reduced gas consumption by 2% in the last year.
3. Based on the 12 Mall centres, energy was down 4% with 750 tonnes of CO_2 saved. Waste diverted from landfill was 76%. Waste recycled was 63% narrowly missing our target of 65% and water consumption was down 6%.
4. The Carbon Trust Standard is due for renewal in 2011 and the business has fully prepared for compliance with the carbon reduction regulations by registration. Automated environmental data collection is now in place for 90% of our carbon energy footprint.
5. The MallClean contract with OCS, the cleaning and facilities management company, entered its third and final year of operation maintaining an annual averaged performance score of 96.5% against the contract KPI's.

Other 2010 environmental highlights

Each Mall has an impact improvement plan that identifies areas for operational improvements, low carbon retrofit projects, plant replacement and renewable opportunities.

Capital & Regional is now represented on the BCSC Sustainability Group and supported the BCSC Sustainability Charter by providing best practice case studies for the industry to share.

A working group was put in place to review the tenant fit out guide and property management handbook to improve environmental sharing and best practice between tenant and landlord for implementation in January 2011.

74% of SNO!zone waste was recycled at Milton Keynes.

59% of SNO!zone waste was recycled at Castleford.

30% of SNO!zone waste was recycled at Braehead, a much lower figure as only glass and card are currently recycled on this site.

Efficiencies were introduced to the MallClean contract early in 2010 reducing the periodic cleaning frequencies of high-level items whilst maintaining the high standards of cleaning at customer levels. The contract was retendered across Q3/Q4 2010.

EnviroMall involves more than changing the way shopping centres are managed as facilities to improve environmental impacts. It also focuses on improving the way the local community views recycling and reducing impact on the environment. This involved engagement with local groups such as giving schools tours of shopping centres showcasing the recycling approach and partnering and supporting local sustainable charities.

2011 priorities

- Continue reducing carbon output across all of the Group's operations.

- Across the Mall portfolio, to deliver the objectives of the Environmental Impact Improvement Plan. These include reducing energy use by 4%, water use by 5% and recycling 68% of waste with 85% diverted from landfill.

- Meet all carbon reduction commitment regulations and to retain the Carbon Trust Standard in 2011.

- Install automatic meter reading meters for all electrical supplies to accurately bill, monitor and target energy usage at Junction retail park sites.

- We have successfully trialled and will now roll out the Tennant ECH2O floor scrubbing machines which utilise electrically charged and oxygenated water and eliminate the need for cleaning chemicals.

- Through our excellent on site teams and new MallClean partner, we will continue to deliver high standards of cleaning and hygiene in the Mall public spaces whilst challenging the existing operations to deliver improved value, efficiency and environmental impact.

- Maintain the highest possible performance in the annual Capital & Regional Safe compliance audits with the minimum our 100% pass rate for all sites

The workplace

To continue to build a successful business the Group needs to engage, develop and reward our people, retaining our reputation as the employer of choice within the sectors in which we operate. We want to provide relevant, engaging training for all our employees in order that they can make their fullest contribution to our success. We also set out to provide a working environment which supports the wellbeing and health of all our people, taking account of the diversity of our workforce and reflecting our values and ethics.

The Group's stated priorities for 2010 were:

1. To continue to develop employee volunteering links and to encourage wider participation.

2. To conduct a training needs exercise in X-Leisure Limited.

To meet these:

1. Our people participated in many volunteering projects throughout the year. We encourage people to offer time, which is mostly paid work time; we regularly offer free space, resources and cash support. Some examples were, the joint Capital & Regional and Aviva team winning the annual Elifar Foundation Challenge. 21 employees from the London office also ran in the Land Aid 5K, more than we have ever entered as our team in previous years. Five of the team from SNO!zone Braehead completed the gruelling 55-mile Pedal for Scotland cycle in great times, raising funds for Maggie's. And in Maidstone, we hosted The 36 Challenge for the 36 Engineers. This physical challenge involves teams from the local emergency services, the army, local gyms and other local businesses going head to head, where our local team host, manage and sponsor this important community event.

2. A training need analysis exercise was carried out in X-Leisure leading to the development of The Real Snow Real People training programme and to a more structured approach to training delivery with our leisure business partner X-Leisure Limited.

Other 2010 workplace highlights

All the on site security teams in all our shopping centres continued to develop their skills through both classroom based specialist counter terrorism training, and NVQ modular distance learning tools.

The Real Snow Real People programme was created and delivered across all SNO!zone sites, this is a bespoke management skills training programme which will continue to grow and evolve.

The head office relocation to 52 Grosvenor Gardens was successfully completed creating a positive new working environment for the employees based there. Fulfilling the objective of an open plan, all one floor office space and enhancing our one team approach, significantly improving flexibility and the sharing of best practice in all aspects of our business.

We undertook a number of work experience placements, both for school and university students, one of these placements included hosting a Real Estate student from Germany for seven months structured learning as part of his university course.

Our employee communication was further enhanced with the relaunch of our C&R employee magazine. The first ARC (active/responsible/committed) was published in the autumn of 2010.

2011 priorities

- Retain Investors in People accreditation in our shopping centre business and build upon this.
- Continue to attract and retain the very best people.
- Maintain high levels of communication across the Company.
- Launch of the Capital & Regional People learning programme contributing to our "be all you can be" approach to training and development for all our people.
- Continue to provide a working environment which reflects our values and ensures the health and wellbeing of all our people, in turn allowing them to contribute to their full potential to our business performance.
- Run a further Learning Legacy programme which combines training and development objectives with responsible business. We will work with our charity partner of choice on the project over the course of the year.
- Continue to provide a safe and healthy environment in which to work by staying focused on aspects of health, safety and wellbeing.

The community

Capital & Regional's responsibilities to the communities in which we operate are many. We have a key role in the regeneration of the built environment and we work closely with key stakeholders to ensure we listen, engage and contribute positively where we invest. We aim to provide safe, welcoming, clean and attractive shopping and leisure venues where people choose to shop, work and socialise. We also aim to make a positive contribution to each local community by being a responsible, socially aware and proactive partner.

Our stated objectives for 2010 were:

1. To continue fund raising under the Mallcares programme.
2. In The Junction, to create a memorial garden in the St Andrews Dock area dedicated to the 58 men that died on three Hull trawlers in 1968.
3. In The Junction, to run a community boat for disadvantaged and disabled children and community groups along the historic inland waterway from Swansea to Port Talbot.
4. In X Leisure to continue to offer free events to customers throughout 2010, to encourage local community engagement and sustain visitor numbers.
5. To continue to develop security excellence at The Mall through the application of the Community Safety Accreditation Scheme, Action Against Business Crime, LeisureWatch, Park Mark and Project Argus through the National Counter Terrorism Security Office.

To meet these we have performed the following:

1. The Mallcares initiative had raised a total of £822,030 at the end of 2010.
2. Due to the sale of St Andrews Quay in August 2010, the completion of the memorial garden for the lost trawler men has been passed to the new owners Threadneedle.
3. The Junction donated £1000 to the Community boat in Swansea which has been well received and the boat is now docked at Swansea Marina.
4. In X-Leisure, events took place throughout summer 2010 focusing on the Xscapes. Each Xscape site hosted a four-week promotion offering free events and prize giveaways.
5. The MallSecure contract continued to deliver an excellent overall security service to our Malls recording an annual averaged performance score against the contract KPI's of 94%. Security excellence continued to be developed through the introduction of the Police Community Safety Accreditation scheme at four shopping centres. We are actively involved in the local Business Crime Partnerships at each of our centres. All of portfolio car parks have received the Park Mark Award. We participated in local Project Argus exercises in conjunction with the emergency response teams.

Other community highlights 2010

Capital & Regional is committed to supporting locally relevant community events and organisations across the UK where we have property, examples of which are:

- The Mall Barnsley worked alongside the local Primary Care Trust to promote hearing tests, blood pressure checks and diabetes tests.
- The Wood Green team is working with local gardening groups to promote and improve the appearance of the local area and the Mall Luton actively engaged local school children in the launch of the centre extension, including holding a competition with local schools to design a "Welcome to The Mall" sign.
- Working alongside Enterprise UK, RBS and the National Skills Academy for Retail, The Mall developed the Make your Mark competition; it has now evolved into The Retail Factor. By teaming up with Retail Profile – the company that manages the Retail Merchandising Unit (RMU) operations for numerous major landlords, it has now extended the competition to shopping centres owned by Capital Shopping Centres PLC, in a bid to reach even more potential retail entrepreneurs. This national competition enables entrants the opportunity to test their business on a Retail Merchandising Unit (RMU) and the outstanding candidate is rewarded a valuable retail start-up package.

- As well as engaging with local groups and the community we are actively involved in a large number of national groups and associations including the British Council for Shopping Centres (BCSC); The Carbon Trust; Envirowise; Upstream; Education Business partnerships

- SNO!zone sponsored and partnered many local events and charities, some examples are:

  – Rider Sponsorship – SNO!zone supported local home-grown talent at grass roots stage to give them free access to the slope for training. The programme continues to go from strength to strength with over 65 athletes signed up, two of which are recent Olympic athletes.

  – Playing for Success scheme involved bringing children at danger of underachievement into inspirational settings for learning. This was a successful initiative run for two years, which was partly funded by the government. Unfortunately, funding was withdrawn by the government for 2011.

  – Disability Snowsport UK National Skiathon took place in May 2010 to raise funds for disabled snow sports in the UK. And Xscape Castleford held a Burlesque night raising funds for Help the Heroes.

  – Supported by the Metropolitan Police, an eight-week youth diversion project was held at Great North Leisure Park. The project provided motorbike maintenance workshops over ten weeks (eight weeks on site, two weeks off). It has been judged a success by local police with a number of youths completing all ten weeks of the project and a reduction in crime and public order issues with all youths involved during the ten weeks.

2011 objectives

- To continue fund raising under the Mallcares programme.

- Invest in our local communities supporting urban regeneration and creating employment. Discussions are under way and proposals being worked on to see if it is feasible to set up a site recycling scheme which will include tenants waste on our retail park sites.

- Increase involvement in the leadership of the local Business Crime Partnerships.

- Counter terrorism risk assessments are planned to be developed for each site during 2011.

- Implement across our shopping centres the Derwent Initiative (Leisurewatch programme) which equips our management and security teams who deal with the issues of child protection in public spaces.

Case study – Blackburn regeneration

In 2010 we completed the 220,000 sq ft extension and refurbishment of the Mall Blackburn. The development exemplified several areas of responsible business:

1. Regeneration – The £65 million project regenerated an important Lancashire town centre, providing a stimulus to business throughout the town.

2. Employment – Retailers occupying the extension include Primark, H & M Hennes, USC, and employ approximately 370 staff.

3. Environmental construction considerations – many environmentally friendly design features were built into the new development, for example, all smoke extract is non mechanical and ventilation is provided naturally.

Conclusion

Capital & Regional believes that the value of its business is best enhanced by respecting the interests of all its stakeholders and that the creation of long-term financial returns is dependent on effective management of environmental and social performance. The Group is committed to fulfilling its key objectives to respond to the challenges currently facing the business.

Consolidated income statement

For the year to 30 December 2010

	Note	2010 £m	2009 £m
Revenue	3	**30.7**	37.8
Cost of sales	4	**(10.4)**	(16.0)
Gross profit		**20.3**	21.8
Administrative costs		**(11.8)**	(15.5)
Share of profit/(loss) in associates and joint ventures	16a	**45.2**	(106.8)
Loss on revaluation of investment properties	11a	**(0.2)**	(2.8)
Loss on sale of properties and investments	11d	**(0.2)**	(0.2)
Impairment of goodwill	12	**(0.7)**	(1.6)
Profit/(loss) on ordinary activities before financing		**52.6**	(105.1)
Finance income	5	**1.2**	2.7
Finance costs	6	**(7.4)**	(11.0)
Profit/(loss) before tax	7	**46.4**	(113.4)
Current tax	9a	**0.5**	(3.7)
Deferred tax	9a	**(2.5)**	(2.6)
Tax charge		**(2.0)**	(6.3)
Profit/(loss) for the year		**44.4**	(119.7)
Basic earnings/(loss) per share	10a	**13p**	(59)p
Diluted earnings/(loss) per share	10a	**13p**	(59)p

All results derive from continuing operations and the profit for the current year and the loss for the preceding year are fully attributable to equity shareholders.

3: Financial statements

Consolidated statement of comprehensive income

For the year to 30 December 2010

	Note	2010 £m	2009 £m
Profit/(loss) for the year		**44.4**	(119.7)
Exchange differences on translation of foreign operations		**(2.6)**	(3.9)
Gains on a hedge of a net investment taken to equity		**2.2**	3.9
Other comprehensive income		**(0.4)**	–
Total comprehensive income for the year	28	**44.0**	(119.7)

The total comprehensive income for the current year and the preceding year is fully attributable to equity shareholders.

Consolidated balance sheet

At 30 December 2010

	Note	2010 £m	2009 £m
Non-current assets			
Investment properties	11a	**10.0**	10.2
Goodwill	12	**1.9**	2.6
Plant and equipment	13a	**0.9**	1.0
Available for sale investments	13b	**0.3**	0.3
Receivables	14	**25.9**	25.0
Investment in associates	16b	**110.8**	76.4
Investment in joint ventures	16c	**25.7**	30.3
Total non-current assets		**175.5**	145.8
Current assets			
Trading properties	11a	**70.8**	70.7
Properties held for sale	11b	**–**	13.5
Receivables	17	**7.1**	6.9
Current tax recoverable		**–**	0.7
Cash and cash equivalents	18	**25.7**	17.5
Total current assets		**103.6**	109.3
Total assets	2b	**279.1**	255.1
Current liabilities			
Bank loans	21a	**(0.6)**	(0.2)
Trade and other payables	19	**(10.9)**	(20.6)
Liabilities relating to assets held for sale		**–**	(1.0)
Current tax liabilities	9e	**(5.8)**	(8.1)
		(17.3)	(29.9)
Non-current liabilities			
Bank loans	21a	**(68.8)**	(78.6)
Other payables	20	**(4.8)**	(5.6)
Deferred tax liabilities	9c	**(3.7)**	(1.2)
Non-current tax liabilities	9e	**(10.0)**	(10.0)
Total non-current liabilities		**(87.3)**	(95.4)
Total liabilities	2b	**(104.6)**	(125.3)
Net assets		**174.5**	129.8
Equity			
Share capital	23	**9.9**	9.9
Other reserves	25	**153.2**	153.6
Capital redemption reserve		**4.4**	4.4
Own shares held		**(9.7)**	(9.7)
Retained earnings		**16.7**	(28.4)
Equity shareholders' funds		**174.5**	129.8
Basic net assets per share	27	**£0.50**	£0.37
EPRA triple net assets per share	27	**£0.50**	£0.37
EPRA net assets per share	27	**£0.57**	£0.47

These financial statements were approved by the Board of directors, authorised for issue and signed on their behalf on 22 March 2011 by:

Charles Staveley
Group Finance Director

3: Financial statements

Consolidated statement of changes in equity

For the year to 30 December 2010

	Share capital £m	Share premium account £m	Special reserve £m	Merger reserve £m	Acquisition reserve £m	Foreign currency reserve £m	Net investment hedging reserve £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
			Other reserves								
Balance at 30 December 2008	**7.1**	**220.5**	**–**	**–**	**9.5**	**13.9**	**(9.6)**	**4.4**	**(9.7)**	**(50.0)**	**186.1**
Loss for the year	–	–	–	–	–	–	–	–	–	(119.7)	(119.7)
Other comprehensive income for the year	–	–	–	–	–	(3.9)	3.9	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(3.9)**	**3.9**	**–**	**–**	**(119.7)**	**(119.7)**
Shares issued at a premium	2.8	–	–	60.3	–	–	–	–	–	–	63.1
Cancellation of share premium account	–	(220.5)	79.5	–	–	–	–	–	–	141.0	–
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	–	–	–	0.3	0.3
Balance at 30 December 2009	**9.9**	**–**	**79.5**	**60.3**	**9.5**	**10.0**	**(5.7)**	**4.4**	**(9.7)**	**(28.4)**	**129.8**
Profit for the year	–	–	–	–	–	–	–	–	–	44.4	44.4
Other comprehensive income for the year	–	–	–	–	–	(2.6)	2.2	–	–	–	(0.4)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(2.6)**	**2.2**	**–**	**–**	**44.4**	**44.0**
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	–	–	–	0.7	0.7
Balance at 30 December 2010	**9.9**	**–**	**79.5**	**60.3**	**9.5**	**7.4**	**(3.5)**	**4.4**	**(9.7)**	**16.7**	**174.5**

Consolidated cash flow statement

For the year to 30 December 2010

	Note	2010 £m	2009 £m
Operating activities			
Net cash from operations	26	**2.9**	5.2
Distributions received from associates and joint ventures	16b,16c	**9.7**	2.8
Interest paid	6	**(5.7)**	(9.4)
Interest received		**0.2**	–
Income taxes paid		**(4.3)**	(0.7)
Cash flows from operating activities		**2.8**	(2.1)
Investing activities			
Sale of investment properties	11b	**12.5**	–
Purchase of fixed assets		**(0.4)**	(0.1)
Investment in associates	16b	**(2.7)**	(4.6)
Investment in joint ventures	16c	**–**	(2.1)
Disposals of joint ventures	31	**5.7**	1.2
Share buybacks from joint ventures	16c	**0.6**	–
Loans to joint ventures		**(0.9)**	(0.9)
Loans repaid by joint ventures		**0.5**	6.3
Cash flows from investing activities		**15.3**	(0.2)
Financing activities			
Net proceeds from the issue of ordinary share capital		**–**	63.1
Bank loans drawn down		**–**	70.4
Bank loans repaid	21a	**(9.9)**	(102.5)
Loan arrangement costs		**–**	(3.7)
Settlement of forward foreign exchange contract		**–**	(8.7)
Termination of interest rate swaps		**–**	(2.9)
Cash flows from financing activities		**(9.9)**	15.7
Net increase in cash and cash equivalents		**8.2**	13.4
Cash and cash equivalents at the beginning of the year		**17.5**	4.1
Cash and cash equivalents at the end of the year	18	**25.7**	17.5

1 Significant accounting policies

General information

Capital & Regional plc is a company domiciled and incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 52 Grosvenor Gardens, London, SW1W 0AU. The nature of the Group's operations and its principal activities are disclosed in note 2a and in the operating and financial reviews.

Adoption of new and revised standards

The Group adopted two interpretations issued by the International Financial Reporting Interpretations Committee in the current year:

- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 17 Distributions of Non-cash Assets to Owners

The Group adopted 14 amendments to Standards issued by the International Accounting Standards Board in the current year:

- IFRS 8 Operating Segments
- Amendments to IFRS 1 and IAS 27 (May 2008) Measuring Investments in Subsidiaries, Jointly Controlled Entities or Associates on First-time Adoption
- Revisions to IFRS 1 (December 2008) on First-time Adoption of IFRSs
- Amendments to IFRS 2 (January 2008) Vesting Conditions and Cancellations
- Amendments to IFRS 3 (January 2008) Business Combinations
- Amendments to IFRS 7 (March 2009) Enhancing Disclosures about Fair Value and Liquidity Risk
- Amendments to IAS 1 (September 2007) Presentation of Financial Statements
- Amendments to IAS 23 (March 2007) Borrowing Costs
- Amendments to IAS 27 (January 2008) Consolidated and Separate Financial Statements
- Amendments to IAS 32 and IAS 1 (February 2008) Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IAS 39 (July 2008) Eligible Hedged Items
- Amendments to IAS 39 (March 2009) Clarification regarding Assessment of Embedded Derivatives
- Improvements to IFRSs 2008 (May 2008)
- Improvements to IFRSs 2009 (April 2009)

The adoption of these Standards and Interpretations has not led to any material changes in the Group's accounting policies, reported results and financial position except as follows:

- In relation to IFRS 3 the following accounting policies have changed, though there has been no effect on the reported results and financial position as no acquisitions have been made during the year which fall under the scope of the new standard:
  - acquisition costs which previously would have been included in the cost of a business combination are included as administrative expenses as they are incurred;
  - any pre-existing equity interest in an entity acquired is remeasured to fair value at the date of obtaining control, with any resulting gain or loss recognised in the income statement;
  - any changes in the Group's ownership interest subsequent to the date of obtaining control are recognised directly in equity, with no adjustment to goodwill; and
  - any changes to the cost of an acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in the income statement where previously they resulted in an adjustment to goodwill.

- IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed by the Board of directors to allocate resources between the segments and to assess their performance, in contrast to IAS 14 "Segmental reporting" which required the Group to identify business and geographical segments using a risk and rewards approach. As a result, the segmental information required by IAS 34 included in notes 2a and 2b is presented in accordance with IFRS 8 and the comparatives have been restated accordingly. The separate note showing statutory segmental information included as note 3 of the Group's 2009 financial statements is no longer required.

1 Significant accounting policies continued

- In relation to IAS 1, the primary statements have changed with the "Statement of total recognised income and expense" replaced by the "Statement of comprehensive income", and the "Reconciliation of movement in equity shareholders' funds" replaced by the "Consolidated statement of changes in equity". The latter shows changes in the components of equity for each period presented and it therefore incorporates the financial information included in notes 26 and 27 of the Group's 2009 financial statements, which are no longer required. If the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements, it presents an additional balance sheet as at the beginning of the earliest comparative period. The financial liability of £3.4 million at 30 December 2009 related to the interest rate swap has been reclassified from current payables in note 19 to non-current payables in note 20 as it has a maturity of more than twelve months from the balance sheet date and it is not intended to be settled within one year. No other restatements or reclassifications have been made in the current period.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Effective in the forthcoming year:

- Amendments to IFRS 1 (July 2009) Additional Exemptions for First-time Adopters
- Amendments to IFRS 2 (June 2009) Group Cash-settled Share-based Payment Transactions
- Amendments to IAS 32 (October 2009) Classification of Rights Issues
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Effective in future years:

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- Amendments to IAS 24 (November 2009) Related Party Disclosures
- Amendments to IFRIC 14 (November 2009) Prepayments of a Minimum Funding Requirement
- Improvements to IFRSs 2010 (May 2010)

The directors are assessing the impact that the adoption of these Standards and Interpretations will have on the financial statements of the Group in future periods.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

Basis of preparation

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and notes 1 to 36. They are prepared on the historical cost basis except for the revaluation of certain properties and financial instruments. The accounting policies have been applied consistently to the results, other gains and losses, assets, liabilities, income and expenses.

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

1 Significant accounting policies continued

Going concern
The Group prepares cash flow and covenant compliance forecasts to demonstrate that it has adequate resources available to continue in operation for the foreseeable future, being at least 12 months from the date of this report. In these forecasts the directors specifically consider anticipated future market conditions and the Group's principal risks and uncertainties. The directors believe that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the annual report and financial statements.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of financial statements requires the directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

The critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements, or that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

- an assessment of whether certain operating segments have characteristics that are sufficiently similar to allow them to be aggregated into a single segment for reporting in note 2a.
- an assessment of the likelihood that potential historic tax liabilities will arise as well as the impact of changes in recent legislation, case law and accounting standards, along with future projections for the Group, in determining the current and deferred tax assets, liabilities and charge to the income statement, as disclosed in note 9.
- reliance upon the work undertaken at 30 December 2010 by independent professional qualified valuers, as disclosed in note 11c, in assessing the fair value of certain of the Group's investment properties.
- an assessment of the directors' valuations of the investment properties owned by FIX UK as disclosed in note 11c.
- an estimate of the value in use of the cash-generating units to which goodwill has been allocated to determine whether the goodwill is impaired, as disclosed in note 12. The value in use calculation requires estimates of the expected life of the X-Leisure fund, the future cash flows expected to arise from the management contract and an appropriate discount rate for the calculation of present value.
- an assessment of whether the Group exercises significant influence over its investments in The Mall, The Junction and X-Leisure, as discussed in note 16b.
- reliance upon the work undertaken at 30 December 2010 by independent third party experts in assessing the fair values of the Group's derivative financial instruments, which are disclosed in notes 17, 20 and 22f.
- an estimate of the future cash flows from the asset and property management contracts that are part of the total identifiable assets and liabilities in connection with the acquisition of Garigal, as disclosed in note 29.
- consideration of the potential transfer of risks and rewards of ownership in accordance with IAS 17 "Leases" for all properties leased to tenants. The directors have determined that all such leases are operating leases.
- the likelihood that CRPM, X-Leisure Limited and Garigal will receive performance fee revenue under their respective asset and property management contracts. The directors have concluded that it is not yet probable that any amounts will be received but the performance criteria are disclosed in note 36.

The directors believe that the estimates and associated assumptions used in the preparation of the financial statements are reasonable, but actual outcomes may differ from those anticipated and so the judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 Significant accounting policies continued

Principal accounting policies
The principal accounting policies adopted are set out below as.

Basis of consolidation
As well as the financial statements of the Company, the consolidated financial statements incorporate the results of entities controlled by the Company (its subsidiaries), associates and joint ventures made up to 31 December each year.

Business combinations
Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate at the date of exchange of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred. Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the remeasurement period or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information and is subject to a maximum of one year.

Goodwill
Goodwill arising in a business combination is recognised as an asset at the date that control is acquired and is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any equity interest in the entity already held by the acquirer over the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed. Goodwill which is recognised as an asset is not amortised but is reviewed for impairment at least annually. The impairment is calculated on the value in use of the goodwill and is recognised immediately in the income statement and not subsequently reversed. Where the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any equity interest in the entity already held by the acquirer, the excess is recognised immediately in the income statement as a bargain purchase gain.

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

Associates and joint ventures
A joint venture is an entity over which the Group has joint control, which is the contractually agreed sharing of control over an economic activity which exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control over those policies.

In accordance with IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures", associates and joint ventures are accounted for under the equity method, whereby the consolidated balance sheet and income statement incorporate the Group's share of net assets and profits or losses after tax. The profits or losses include revaluation movements on investment properties. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

1 Significant accounting policies continued

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the associate and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

The reporting period for associates and joint ventures ends on 31 December and their financial statements are equity accounted to this date. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", associates and joint ventures are reviewed at the end of the reporting period to determine whether any impairment loss should be recognised.

Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the exchange rates ruling at the balance sheet date. The operating income and expenses of foreign operations are translated into sterling at the average exchange rates for the period. Significant transactions, such as property sales, are translated at the foreign exchange rate ruling at the date of each transaction. The principal exchange rate used to translate foreign currency denominated amounts in the balance sheet is the rate at the end of the year: £1 = €1.1618 (2009: £1 = €1.1062). The principal exchange rate used for the income statement is the average rate for the year: £1 = €1.1657 (2009: £1 = €1.1229).

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the foreign currency reserve and the effective portions of related foreign currency hedges are taken to the net investment hedging reserve. The net investment in foreign operations includes the equity of the underlying entities and the portion of shareholder loans to those entities that is treated as equity where there is no intention of repayment in the foreseeable future. All exchange differences previously accumulated in equity are transferred to the income statement upon disposal or, where control is lost, part-disposal of the foreign operation.

Plant and equipment

Plant and equipment is 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, on a straight-line basis over their expected useful lives:

- Leasehold improvements – over the term of the lease
- Fixtures and fittings – over three to five years
- Motor vehicles – over four years

1 Significant accounting policies continued

Property portfolio

Investment properties

Investment properties are stated at fair value, being the market value determined by professionally qualified external or director valuers, with changes in fair value being included in the income statement. Valuations are generally carried out twice a year. In accordance with IAS 40 "Investment Property", no depreciation is provided in respect of investment properties.

Leasehold properties

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

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. Investment properties are reclassified as held for sale once contracts have been exchanged and are transferred between categories at the estimated market value on the transfer date. Properties held for sale are shown at fair value less costs of disposal.

Trading properties

Properties held with the intention of disposal are valued at the lower of cost and net realisable value. Any impairment in the value of trading properties is shown within the cost of sales line in the income statement.

Head leases

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

Tenant leases and incentives

Incentives and costs associated with entering into tenant leases are amortised over a straight line basis over the term of the lease.

Operating leases

Annual rentals under operating leases are charged to the income statement on a straight line basis over the term of the lease.

Financial assets and financial liabilities

Cash and cash equivalents

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

Trade receivables and payables

Trade receivables and payables are stated at fair value, less any provision for impairment against trade receivables.

1 Significant accounting policies continued

Borrowings
Borrowings are held at amortised cost. They are recognised initially at fair value, after taking into account any discount on issue and attributable transaction costs. Subsequently, such discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", a substantial modification of the terms of an existing borrowing is accounted for as an extinguishment of the original liability and the recognition of a new liability. Where the terms of the modification are not substantially different, any costs paid in connection with the modification are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining life of the modified liability.

Derivative financial instruments
Derivative financial instruments are designated as at fair value through profit or loss in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". They are recognised initially at fair value, which equates to cost, and are subsequently remeasured at fair value. The fair value of forward foreign exchange contracts is calculated by reference to spot and forward exchange rates at the balance sheet date. The fair value of interest rate swaps is calculated by reference to appropriate forecasts of yield curves between the balance sheet date and the maturity of the instrument. Changes in fair value are included as finance income or finance costs in the income statement, except for gains or losses on the portion of an instrument that is an effective hedge of the net investment in a foreign operation, which are recognised in the net investment hedging reserve. Derivative financial instruments are classified as non-current when they have a maturity of more than twelve months and are not intended to be settled within one year.

Financial assets
Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held to maturity" investments, "available for sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available for sale financial assets
The Group has investments in unlisted shares and unit trusts that are not traded in an active market but whose fair value the directors consider can be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income, with the exception of impairment losses which are recognised in the income statement. Dividends are recognised in the income statement when the Group's right to receive the dividends is established.

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

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

Deferred tax is provided using the balance sheet liability method on these temporary differences with the exception of goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates applicable at the balance sheet date. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

1 Significant accounting policies continued

Employee benefits

Pension costs

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

Share-based payments

The Group has applied the arrangements of IFRS 2 "Share-based Payment". Equity settled share-based payments are measured at fair value at the date of grant. The fair values of the 2008 LTIP, the COIP, the Matching Share Agreement and the SAYE scheme are calculated using Monte Carlo simulations or the Black-Scholes model as appropriate. The fair values are dependent on factors including the exercise price, expected volatility, period to exercise and risk free interest rate. Market related performance conditions are reflected in the fair values at the date of grant and are expensed on a straight line basis over the vesting period. Non-market related performance conditions are not reflected in the fair values at the date of grant. At each reporting date, the Group estimates the number of shares likely to vest under non-market related performance conditions so that the cumulative expense will ultimately reflect the number of shares that do vest. Where awards are cancelled, including when an employee ceases to pay contributions into the SAYE scheme, the remaining fair value is expensed immediately.

Own shares

Own shares held by the Group are shown as a deduction from shareholders' funds and included in other reserves. The cost of own shares is transferred to retained earnings when shares in the underlying incentive schemes vest. The shares are held in an Employee Share Ownership Trust.

Revenue

Management fees

Management fees are recognised, in line with the property management contracts, in the period to which they relate. They include income in relation to services provided by CRPM to associates and joint ventures for asset and property management, project co-ordination, procurement, and management of service charges and directly recoverable expenses. Income earned by X-Leisure Limited and Garigal for similar services is recognised in the share of profit/(loss) in associates and joint ventures.

Performance fees

Performance fees are recognised as revenue by the Group or the relevant associate or joint venture when both the amount of performance fee and the stage of completion of the relevant performance conditions can be measured reliably, and when it is probable that the performance fee will be received. Performance fees may be earned as follows:

- The Mall: by CRPM on property level outperformance relative to the IPD Shopping Centre Index (taking the 30 June 2010 valuation as the start point) of more than 50 basis points provided that the fund level return is greater than zero, payable at the end of the life of the fund or on an exit event, which is defined as a listing, sale of all the interests in the fund or the making of a cash offer which is accepted by a majority of the investors in the fund. For i) between 50 basis points and 150 basis points, CRPM receives 10% of the outperformance proceeds; ii) for between 150 basis points and 300 basis points of outperformance, CRPM receives 15% of the outperformance proceeds; and iii) for over 300 basis points of outperformance, CRPM receives no additional fee to ensure excessive risks are not taken. The provisions in the management agreements relating to removal for underperformance, which currently apply with effect from 31 December 2012, have been amended such that the GP board will only have the right to remove CRPM as the asset and property manager in the event of underperformance of at least 100 basis points below the IPD Shopping Centre Index over the period ending 31 December 2014. The above changes will be effective from 21 July 2010 but are subject to final confirmation from the Mall Bond Security Trustee which is expected shortly as disclosed in note 3.

- The Junction: by CRPM on any realised geared returns in excess of an internal rate of return of 15% over the period from May 2009 to the disposal of the entire portfolio or the expiry of the fund.

- X-Leisure: by X-Leisure Limited on any realised geared return in excess of an internal rate of return of 15% over the period from August 2009 to the disposal of the entire portfolio on the expiry of the fund or its conversion into a listed structure. An interim performance fee may be earned on the same basis if the X-Leisure portfolio is reduced to nine properties or fewer.

- German portfolio: by Garigal on any realised geared returns in excess of an internal rate of return of 12% over the period from June 2010 to the disposal of the entire portfolio or its conversion into a listed structure, subject to a maximum of €15.0 million.

Provisions for performance fees payable by the underlying associate or joint venture are made when there is a present obligation to settle the performance fee, its amount can be measured reliably and it is probable that it will be paid. Further disclosure on performance fees is included in note 36.

1 Significant accounting policies continued

Net rental income
Net rental income is gross rental income adjusted for tenant incentives, recognised on a straight-line basis over the term of the underlying lease, less expenses directly related to letting and holding the properties.

Interest and dividend income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Finance costs
All borrowing costs are recognised under finance costs in the income statement in the period in which they are incurred. Finance costs also include the amortisation of loan issue costs, any loss in the value of the Group's wholly owned interest rate swaps and any loss in the ineffective portion of the Group's hedge of its net investment in a foreign operation.

Operating segments
In prior years, segmental information was split between asset businesses, comprising the Group's property investment activities in the UK and Germany, and earnings businesses, comprising the Group's property management activities and SNO!zone. While these definitions continue to be valid, the information provided to the Board of directors (which is the Group's Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance is split further to show individual funds, joint ventures and other underlying entities of these businesses.

Under this basis and the quantitative thresholds of IFRS 8 "Operating Segments", the Group's reportable segments are The Mall, The Junction, X-Leisure, the German joint venture, CRPM and SNO!zone. Other segments not individually reportable in the asset businesses are the Group's remaining associates and joint ventures, comprising FIX UK, Xscape Braehead, The Auchinlea Partnership, PPCR Group, Sauchiehall Centre, MEN Arena (sold in 2010) and Cardiff (sold in 2009), and its wholly owned properties, comprising Great Northern Warehouse, Hemel Hempstead and 10 Lower Grosvenor Place/Beeston Place (sold in 2010). These have been combined into the "Other" segment as they meet the aggregation criteria under IFRS 8. Other segments not individually reportable in the earnings businesses are X-Leisure Limited and Garigal, which are included with CRPM in the "Property management" segment as they also meet the aggregation criteria under IFRS 8. Non-segment items include Group overheads incurred by Capital & Regional plc and other subsidiaries, and the interest expense on the Group's central borrowing facility.

The Group's asset business segments (The Mall, The Junction, X-Leisure, the German joint venture and Other segments) derive their revenue from the rental of investment and trading properties. The Group's earnings business segments (the Property management and SNO!zone segments) derive their revenue from the management of property funds and joint ventures and the operation of indoor ski slopes. The split of revenue between these classifications satisfies the requirement of IFRS 8 to report revenues from different products and services. Depreciation and the variable overhead represent the only significant non-cash expenses.

The Group's interests in the assets, liabilities and profit or loss of its associates and joint ventures are proportionately consolidated and shown on a see-through basis as this is how they are reported to the Board of directors. There are no differences between the measurements of the segments' assets, liabilities and profit or loss as they are reported to the Board of directors and their presentation under the Group's accounting policies.

Inter-segment revenue and expenses represent items eliminated on consolidation and are accounted for on an arm's-length basis. Management fees and other revenue items in the property management segment are earned from the asset business segments, where they are included under property and void costs. Since these asset business segments are proportionately consolidated, the costs would not eliminate against the income and have therefore not been split out separately as inter-segment expenses.

2a Operating segments

Year to 30 December 2010	Note	Asset businesses The Mall £m	 The Junction £m	 X-Leisure £m	 Germany £m	Earnings businesses Other £m	 Property management £m	 SNO!zone £m	**Total reportable segments** **£m**	Group Non-segment items £m	**Total** **£m**
Rental income from external sources	2b	19.5	4.0	5.1	19.0	12.2	–	–	**59.8**	–	**59.8**
Property and void costs		(5.1)	(0.5)	(1.2)	(3.4)	(1.4)	–	–	**(11.6)**	–	**(11.6)**
Net rental income		14.4	3.5	3.9	15.6	10.8	–	–	**48.2**	–	**48.2**
Interest income		0.1	–	–	–	–	–	–	**0.1**	–	**0.1**
Interest expense		(10.1)	(3.4)	(2.7)	(10.5)	(8.3)	–	–	**(35.0)**	–	**(35.0)**
Contribution		4.4	0.1	1.2	5.1	2.5	–	–	**13.3**	–	**13.3**
Management fees	2b	–	–	–	–	–	13.3	–	**13.3**	–	**13.3**
Management expenses		–	–	–	–	–	(7.3)	–	**(7.3)**	(4.0)	**(11.3)**
SNO!zone income	2b	–	–	–	–	–	–	12.5	**12.5**	–	**12.5**
SNO!zone expenses		–	–	–	–	–	–	(11.5)	**(11.5)**	–	**(11.5)**
Depreciation		–	–	–	–	–	(0.2)	(0.3)	**(0.5)**	–	**(0.5)**
Inter-segment revenue	2b	–	–	–	–	0.1	0.1	–	**0.2**	–	**0.2**
Inter-segment expenses		–	–	–	–	(0.1)	(0.1)	–	**(0.2)**	–	**(0.2)**
Interest income on central cash		–	–	–	–	–	–	–	**–**	0.1	**0.1**
Interest expense on central facility		–	–	–	–	–	–	–	**–**	(1.0)	**(1.0)**
Recurring pre-tax profit		4.4	0.1	1.2	5.1	2.5	5.8	0.7	**19.8**	(4.9)	**14.9**
Variable overhead		–	–	–	–	–	(0.7)	–	**(0.7)**	(0.6)	**(1.3)**
Revaluation of investment properties		17.6	3.1	8.1	0.2	0.6	–	–	**29.6**	–	**29.6**
Profit/(loss) on disposals		3.0	1.8	0.2	(0.6)	0.1	–	–	**4.5**	–	**4.5**
Impairment reversal of trading properties	4	–	–	–	–	0.1	–	–	**0.1**	–	**0.1**
Impairment of goodwill	12	–	–	–	–	–	(0.7)	–	**(0.7)**	–	**(0.7)**
(Loss)/gain on financial instruments		(0.2)	(1.4)	(1.0)	2.6	0.6	–	–	**0.6**	–	**0.6**
Other non-recurring items		–	–	–	(1.9)	(1.3)	0.5	1.9	**(0.8)**	(0.5)	**(1.3)**
Profit/(loss) before tax		24.8	3.6	8.5	5.4	2.6	4.9	2.6	**52.4**	(6.0)	**46.4**
Tax charge	9a										**(2.0)**
Profit after tax											**44.4**
Total assets	2b	225.6	67.5	67.0	260.3	142.2	8.8	2.5	**773.9**	24.0	**797.9**
Total liabilities	2b	(168.0)	(43.7)	(41.0)	(211.9)	(133.1)	(4.5)	(2.3)	**(604.5)**	(18.9)	**(623.4)**
Net assets		57.6	23.8	26.0	48.4	9.1	4.3	0.2	**169.4**	5.1	**174.5**

Notes to the financial statements continued

For the year to 30 December 2010

2a Operating segments continued

Year to 30 December 2009	Note	Asset businesses				Earnings businesses				Group	
		The Mall £m	The Junction £m	X-Leisure £m	Germany £m	Other £m	Property management £m	SNO!zone £m	**Total reportable segments £m**	Non-segment items £m	**Total £m**
Rental income from external sources	2b	25.5	8.2	8.1	20.0	11.9	–	–	**73.7**	–	**73.7**
Property and void costs		(7.1)	(1.2)	(1.8)	(2.6)	(2.4)	–	–	**(15.1)**	–	**(15.1)**
Net rental income		18.4	7.0	6.3	17.4	9.5	–	–	**58.6**	–	**58.6**
Interest income		0.3	0.1	–	–	–	–	–	**0.4**	–	**0.4**
Interest expense		(11.8)	(6.5)	(4.6)	(11.3)	(8.3)	–	–	**(42.5)**	–	**(42.5)**
Contribution		6.9	0.6	1.7	6.1	1.2	–	–	**16.5**	–	**16.5**
Management fees	2b	–	–	–	–	–	17.1	–	**17.1**	–	**17.1**
Management expenses		–	–	–	–	–	(11.1)	–	**(11.1)**	(3.9)	**(15.0)**
SNO!zone income	2b	–	–	–	–	–	–	13.7	**13.7**	–	**13.7**
SNO!zone expenses		–	–	–	–	–	–	(12.4)	**(12.4)**	–	**(12.4)**
Depreciation		–	–	–	–	–	(0.1)	(0.3)	**(0.4)**	–	**(0.4)**
Inter-segment revenue	2b	–	–	–	–	0.9	0.3	–	**1.2**	–	**1.2**
Inter-segment expenses		–	–	–	–	(0.2)	(0.9)	(0.1)	**(1.2)**	–	**(1.2)**
Interest expense on central facility		–	–	–	–	–	–	–	**–**	(2.0)	**(2.0)**
Recurring pre-tax profit		6.9	0.6	1.7	6.1	1.9	5.3	0.9	**23.4**	(5.9)	**17.5**
Variable overhead		–	–	–	–	–	(0.3)	–	**(0.3)**	–	**(0.3)**
Revaluation of investment properties		(50.3)	(26.1)	(18.8)	(10.5)	(2.7)	–	–	**(108.4)**	–	**(108.4)**
Deemed disposals		–	(2.8)	(4.4)	–	–	–	–	**(7.2)**	–	**(7.2)**
(Loss)/profit on disposals		(3.7)	(2.1)	(3.4)	–	0.5	–	–	**(8.7)**	(0.7)	**(9.4)**
Impairment of trading properties	4	–	–	–	–	(2.1)	–	–	**(2.1)**	–	**(2.1)**
Impairment of goodwill	12	–	–	–	–	–	(1.6)	–	**(1.6)**	–	**(1.6)**
Gain/(loss) on financial instruments		0.7	(1.3)	0.4	(1.0)	0.8	–	–	**(0.4)**	0.7	**0.3**
Other non-recurring items		–	(0.6)	(0.2)	(0.1)	0.4	(0.5)	–	**(1.0)**	(1.2)	**(2.2)**
(Loss)/profit before tax		(46.4)	(32.3)	(24.7)	(5.5)	(1.2)	2.9	0.9	**(106.3)**	(7.1)	**(113.4)**
Tax charge	9a										**(6.3)**
Loss after tax											**(119.7)**
Total assets	2b	281.7	81.2	67.2	292.6	157.2	7.2	3.5	**890.6**	28.4	**919.0**
Total liabilities	2b	(249.1)	(55.6)	(49.0)	(245.9)	(140.0)	(3.9)	(5.2)	**(748.7)**	(40.5)	**(789.2)**
Net assets		32.6	25.6	18.2	46.7	17.2	3.3	(1.7)	**141.9**	(12.1)	**129.8**

2b Reconciliations of reportable revenue, assets and liabilities

Revenue	Note	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Rental income from external sources	2a	**59.8**	73.7
Inter-segment revenue	2a	**0.2**	1.2
Management fees	2a	**13.3**	17.1
SNO!zone income	2a	**12.5**	13.7
Revenue for reportable segments		**85.8**	105.7
Elimination of inter-segment revenue		**(0.2)**	(1.2)
Rental income earned by associates and joint ventures	16d, 16e	**(52.2)**	(65.8)
Management fees earned by associates and joint ventures	16d, 16e	**(2.7)**	(0.9)
Revenue per consolidated income statement	3	**30.7**	37.8

Revenue for reportable segments by country		
UK	**66.5**	85.7
Germany	**19.3**	20.0
Revenue for reportable segments	**85.8**	105.7

Revenue is attributed to countries on the basis of the location of the underlying properties. All Group revenue in the current year and preceding year arose in the UK. Revenue from the Group's major customer is management fee income from The Mall LP, included in the property management segment, which represented £8.9 million (2009: £9.5 million) of the Group's total revenue of £30.7 million (2009: £37.8 million). Further information on related party transactions is disclosed in note 36 to the financial statements.

Assets	Note	2010 £m	2009 £m
Total assets of reportable segments	2a	**773.9**	890.6
Adjustment for associates and joint ventures		**(543.0)**	(675.9)
Non-segment assets		**48.2**	40.4
Group assets		**279.1**	255.1

Net assets by country		
UK	**123.6**	83.1
Germany	**50.9**	46.7
	174.5	129.8

Liabilities	Note	2010 £m	2009 £m
Total liabilities of reportable segments	2a	**(604.5)**	(748.7)
Adjustment for associates and joint ventures		**521.3**	654.3
Non-segment liabilities		**(21.4)**	(30.9)
Group liabilities		**(104.6)**	(125.3)

3: Financial statements

3 Revenue

Statutory	Note	Year to 30 December 2010 Total £m	Year to 30 December 2009 Total £m
Asset businesses			
Gross rent from wholly owned investment properties		**0.9**	1.1
Gross rent from wholly owned trading properties		**6.7**	6.7
Gross rent from wholly owned properties		**7.6**	7.8
Other income		**–**	0.6
Earnings businesses			
Management fees		**10.6**	15.7
SNO!zone income	2a	**12.5**	13.7
Revenue per consolidated income statement	2b	**30.7**	37.8
Finance income	5	**1.2**	2.7
Total revenue		**31.9**	40.5

Management fees represent revenue earned by the Group's wholly owned CRPM subsidiary.

With effect from 21 July 2010, the fee basis earned by CRPM for asset and property management on The Mall changed from a percentage of property under management to a fixed fee of £4.5 million per annum. 25% of this fee is subject to reduction on a sliding scale from 100% to 75% if the valuation of the properties in the fund falls to between £850 million and £600 million.

The calculation of performance fees on The Mall has also changed so that they are no longer calculated on a rolling three-year basis but will instead be payable at the end of the life of the fund or an exit event such as the sale of all the interests in the fund. Payment will be based on property level outperformance relative to the IPD Shopping Centre Index (taking the 30 June 2010 valuation as the start point) of more than 50 basis points provided that the fund level return is greater than zero. CRPM will earn fees as follows:

- between 50 basis points and 150 basis points: 10% of the outperformance proceeds
- between 150 basis points and 300 basis points of outperformance: 15% of the outperformance proceeds
- over 300 basis points of outperformance: no additional fee to ensure excessive risks are not taken

The provisions in the management agreements relating to removal for underperformance, which currently apply with effect from 31 December 2012, have also been amended such that the fund will only have the right to remove CRPM as managers in the event of underperformance of at least 100 basis points below the IPD Shopping Centre Index over the period ending 31 December 2014. The above changes will be effective from 21 July 2010 but are subject to final confirmation by the Mall Bond Security Trustee which is expected shortly. The GP Board agreed that the right of the fund to remove CRPM if there was a change of control of Capital & Regional Plc would be removed, as has the requirement for the Group to obtain the fund's approval prior to acquiring another shopping centre. These amendments become effective once the fee arrangements have been finalised.

4 Cost of sales

	Note	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Property costs of wholly owned properties		**0.2**	1.0
Void costs of wholly owned properties		**0.4**	0.2
SNO!zone expenses		**9.9**	12.7
(Impairment reversal)/impairment of trading properties	2a, 11a	**(0.1)**	2.1
Total cost of sales		**10.4**	16.0

5 Finance income

	Note	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Interest receivable		**1.2**	1.3
Gain in fair value of financial instruments:			
– Interest rate swaps		**–**	1.2
– Ineffective portion of forward foreign exchange contracts		**–**	0.2
– Unhedged element of forward foreign exchange contracts		**–**	–
Total finance income	3	**1.2**	2.7

6 Finance costs

	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Interest payable on bank loans and overdrafts	**5.8**	11.0
Interest receivable on swaps	**(0.4)**	(2.2)
Interest payable	**5.4**	8.8
Amortisation of loan issue costs	**0.5**	2.5
Other interest payable	**0.3**	(0.4)
Loss in fair value of financial instruments:		
– Interest rate swaps	**1.1**	–
– Ineffective portion of forward foreign exchange contracts	**0.1**	–
– Unhedged element of forward foreign exchange contracts	**–**	0.1
Total finance costs	**7.4**	11.0

7a Profit/(loss) before tax

The profit/(loss) before tax is arrived at after charging the following items:

	Note	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Depreciation of plant and equipment	13a	**0.5**	0.4
Property revaluation	11a	**0.2**	2.8
Impairment of goodwill	12	**0.7**	1.6
Impairment of trade receivables	17	**0.1**	0.6
Staff costs	8a	**13.5**	15.3
Auditors' remuneration	7b	**0.2**	0.6

7b Auditors' remuneration

The breakdown of auditors' remuneration was as follows:

	Note	**Year to 30 December 2010 £m**	Year to 30 December 2009 £m
Fees payable to the Company's auditors for the audit of the Company's annual financial statements		**0.1**	0.1
Fees payable to the Company's auditors and their associates for other services to the Group – the audit of the Company's subsidiaries and joint ventures pursuant to legislation		**0.1**	0.1
Total audit fees		**0.2**	0.2
Non-audit fees (see below)		**–**	0.4
Total fees paid to auditors	7a	**0.2**	0.6

Included in non-audit fees are amounts for services supplied pursuant to legislation of £40,000 (2009: £64,000), which related to the review of the Group's interim report, and corporate finance services of £nil (2009: £330,000). Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

8a Staff costs, including directors

All remuneration is paid by either CRPM or the SNO!zone companies.

	Note	**Year to 30 December 2010 £m**	Year to 30 December 2009 £m
Salaries		**10.9**	13.2
Ex-gratia payments		**0.3**	0.4
Discretionary bonuses		**0.3**	–
Share-based payments	24	**0.7**	0.3
		12.2	13.9
Social security		**1.2**	1.3
Other pension costs		**0.1**	0.1
	7a	**13.5**	15.3

Except for the directors, the Company has no employees. The costs of the directors shown in the directors' remuneration report are borne by CRPM and appropriate amounts recharged to the Company.

8b Staff numbers

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

	Year to 30 December 2010 Number	Year to 30 December 2009 Number
CRPM	**91**	128
SNO!zone	**253**	258
Total staff numbers	**344**	386

9 Tax
9a Tax charge

	Note	**Year to 30 December 2010 £m**	Year to 30 December 2009 £m
Current tax (credit)/charge			
UK corporation tax		**–**	–
Adjustments in respect of prior years		**(0.6)**	3.6
Foreign tax		**0.1**	0.1
Total current tax (credit)/charge		**(0.5)**	3.7
Deferred tax charge			
Origination and reversal of temporary timing differences		**2.5**	2.6
Total deferred tax charge		**2.5**	2.6
Total tax charge	2a, 9b	**2.0**	6.3

£nil (2009: £nil) of the tax charge relates to items included in other comprehensive income.

9b Tax charge reconciliation

	Note	**Year to 30 December 2010 £m**	Year to 30 December 2009 £m
Profit/(loss) before tax		**46.4**	(113.4)
Profit/(loss) multiplied by the UK corporation tax rate of 28% (2009: 28%)		**13.0**	(31.8)
Non-allowable expenses and non-taxable items (restated)*		**(1.0)**	(4.8)
(Utilisation of tax losses)/excess tax losses		**(0.7)**	4.0
Tax on realised gains/(losses) (restated)*		**(1.5)**	1.7
Unrealised (gains)/losses on investment properties not taxable		**(8.2)**	29.3
Temporary timing and controlled foreign companies income		**1.0**	4.4
Overseas tax rate differences		**–**	(0.1)
Adjustments in respect of prior years		**(0.6)**	3.6
Total tax charge	9a	**2.0**	6.3

* Comparative amounts have been restated for consistency with the presentation in the current year with £163.7 million being eliminated from both "non-allowable expenses and non-taxable items" and "tax on realised gains/(losses)" in 2009 which had no impact on the total tax charge

3: Financial statements

9c Deferred tax asset/(liabilities)

	Note	Capital allowances £m	Other timing differences £m	**30 December 2010 £m**	30 December 2009 £m
At the start of the year		(4.9)	3.7	**(1.2)**	1.4
Deferred tax credit/(charge)	9a,10a	–	(2.5)	**(2.5)**	(2.6)
At the end of the year		(4.9)	1.2	**(3.7)**	(1.2)

The UK corporation tax rate will be reduced by 1% to 27% from 1 April 2011 so the rate at which deferred tax is booked in the financial statements is 27% (2009: 28%).

There are no temporary differences relating to the unremitted earnings of subsidiaries as the Groups overseas subsidiaries are controlled foreign companies under UK tax legislation and their profits are treated as taxable in the UK in the year they arise. No deferred tax asset has been recognised in respect of temporary differences arising from investments in associates and interests in joint ventures of £3.0 million (2009: £3.1 million) as it is not certain that a deduction will be available when the asset crystallises.

9d Unused tax losses

The Group has £111.4 million (2009: £108.1 million) of unused revenue tax losses, all of which are in the UK. A deferred tax asset of £0.6 million (2009: £0.7 million) has been recognised in respect of £2.2 million (2009: £2.5 million) of these losses, based on future profit forecasts. No deferred tax asset has been recognised in respect of the remainder owing to the unpredictability of future profit streams and other reasons which may restrict the utilisation of the losses. The Group has unused capital losses of £21.5 million (2009: £19.7 million) that are available for offset against future gains but no deferred tax has been recognised in respect of these losses owing to the unpredictability of future capital gains and other reasons which may restrict the utilisation of the losses. The amount of losses available have yet to be agreed with the tax authorities and may therefore be reduced. The losses do not have an expiry date.

9e Factors affecting tax

The calculation of the Group's tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. The Group has undertaken a number of other significant transactions in prior years which still need to be agreed with the tax authorities. The Group has assessed the potential exposure in respect of these transactions and maintains a limited provision on the expectation that no material liability will arise. The Group continues to monitor the position together with its advisers and is seeking to agree these outstanding matters with the tax authorities.

In 2009 agreement was reached with the tax authorities related to tax structuring of previous property disposals by the Group in 2004 and 2005 which resulted in a liability of £19.5 million including interest. At 30 December 2010 the corporate tax liability related to this was £15.0 million, with £5.0 million classified as current and £10.0 million as non-current. As disclosed in note 35 the Group made a cash payment of £5.0 million on the due date of 31 December 2010 related to the current tax liability recorded at 30 December 2010 in accordance with the agreed payment plan.

10 Earnings per share

The European Public Real Estate Association ("EPRA") has issued recommendations for the calculation of earnings per share information as shown in the following tables:

10a Earnings per share calculation

	Note	Year to 30 December 2010 Basic	Diluted	EPRA diluted	Year to 30 December 2009 Basic	Diluted	EPRA diluted
Profits/(losses) (£m)							
Profit/(loss) for the year		**44.4**	**44.4**	**44.4**	(119.7)	(119.7)	(119.7)
Revaluation of investment properties	10b	**–**	**–**	**(29.6)**	–	–	108.4
(Profit)/loss on disposal of investment properties (net of tax)	10b	**–**	**–**	**(3.2)**	–	–	9.4
Movement in fair value of financial instruments	10b	**–**	**–**	**0.1**	–	–	0.9
Impairment of goodwill	12	**–**	**–**	**0.7**	–	–	1.6
Deferred tax charge on capital allowances	9c	**–**	**–**	**–**	–	–	0.8
		44.4	**44.4**	**12.4**	(119.7)	(119.7)	1.4
Weighted average number of shares (m)							
Ordinary shares in issue	23	**350.6**	**350.6**	**350.6**	206.6	206.6	206.6
Own shares held		**(2.2)**	**(2.2)**	**(2.2)**	(3.5)	(3.5)	(3.5)
Dilutive contingently issuable shares and share options		**–**	**0.5**	**0.5**	–	–	–
		348.4	**348.9**	**348.9**	203.1	203.1	203.1
Earnings/(loss) per share (pence)		**13p**	**13p**	**4p**	(59)p	(59)p	1p

At the end of the year, the Group had 14,671,893 (2009: 2,001,986) share options and contingently issuable shares granted under share-based payment schemes that could potentially have diluted basic earnings per share in the future but which have not been included in the calculation because they are not dilutive or the conditions for vesting have not been met.

10b Reconciliation of earnings figures included in earnings per share calculations

	Note	Year to 30 December 2010 Revaluation movements £m	Profit/(loss) on disposal £m	Movement in fair value of financial instruments £m	Year to 30 December 2009 Revaluation movements £m	Loss on disposal £m	Movement in fair value of financial instruments £m
Associates	16d	**28.4**	**5.0**	**(1.4)**	(95.2)	(9.2)	(0.2)
Joint ventures	16e	**1.4**	**(0.3)**	**3.2**	(10.4)	–	(0.8)
Wholly owned		**(0.2)**	**(0.2)**	**(1.2)**	(2.8)	(0.2)	1.3
Tax effect		**–**	**(1.3)**	**(0.7)**	–	–	(1.2)
Total	10a	**29.6**	**3.2**	**(0.1)**	(108.4)	(9.4)	(0.9)

11 Property assets
11a Wholly owned properties

	Note	Freehold investment properties £m	Leasehold investment properties £m	Sub-total investment properties £m	Long leasehold owner-occupied property £m	Freehold trading properties £m	**Total property assets £m**
Cost or valuation							
At 30 December 2008		0.2	15.1	15.3	10.8	72.8	**98.9**
Impairment of trading properties	4, 26	–	–	–	–	(2.1)	**(2.1)**
Revaluation movement	7a, 26	–	(2.7)	(2.7)	(0.1)	–	**(2.8)**
Head leases treated as finance leases		–	–	–	0.4	–	**0.4**
Transfer to properties held for sale	11b	–	(2.4)	(2.4)	(11.1)	–	**(13.5)**
At 30 December 2009		0.2	10.0	10.2	–	70.7	**80.9**
Impairment reversal of trading properties	4, 26	–	–	–	–	0.1	**0.1**
Revaluation movement	7a, 26	–	(0.2)	(0.2)	–	–	**(0.2)**
At 30 December 2010		**0.2**	**9.8**	**10.0**	**–**	**70.8**	**80.8**

The Group did not have any wholly owned development property in either the current year or the preceding year. The Group has pledged land and buildings with a carrying amount of £80.6 million (2009: £91.8 million) to secure banking facilities granted to the Group, including amounts relating to trading properties of £70.8 million (2009: £70.7 million). Those banking facilities restrict the remittance of income from the properties elsewhere in the Group.

11b Properties held for sale

	Note	Leasehold investment property £m	Long leasehold owner-occupied property £m	Total properties held for sale £m
Cost or valuation				
At 30 December 2008		–	–	–
Transfer from wholly owned properties	11a	2.4	11.1	13.5
At 30 December 2009	11c	2.4	11.1	13.5
Disposals		(2.4)	(11.1)	(13.5)
At 30 December 2010		–	–	–

On 2 March 2010 the sale of the Group's owner-occupied leasehold property completed for a sale price after transaction costs of £10.4 million. The proceeds were used to pay down the floating rate debt of £7.4 million secured on the property. The disposal included £0.8 million representing the value of the head lease. There was no profit or loss on disposal as the property was valued at its fair value at 30 December 2009.

On 10 March 2010 the sale of the Group's Beeston Place property completed for a sale price, after transaction costs, of £2.1 million. The disposal included £0.2 million representing the value of the head lease. There was no profit or loss on disposal as the property was valued at its fair value at 30 December 2009.

11c Property assets

	Note	30 December 2010 Valuation £m	30 December 2009 Valuation £m
Wholly owned			
Investment properties at fair value		**10.0**	10.2
Held for sale properties at fair value	11b	**–**	12.5
Head leases treated as finance leases on held for sale properties	11b	**–**	1.0
Trading properties at the lower of cost and net realisable value		**72.0**	72.0
Unamortised tenant incentives on trading properties		**(1.2)**	(1.3)
		80.8	94.4
Joint ventures			
Investment properties at fair value		**546.7**	644.8
Head leases treated as finance leases on investment properties		**–**	3.5
Unamortised tenant incentives on investment properties		**(5.8)**	(8.1)
Held for sale properties at fair value		**–**	3.0
	16e	**540.9**	643.2
Associates			
Investment properties at fair value		**2,217.5**	2,407.9
Head leases treated as finance leases on investment properties		**84.8**	100.7
Unamortised tenant incentives on investment properties		**(49.3)**	(53.7)
Held for sale properties at fair value		**50.0**	–
	16d	**2,303.0**	2,454.9

External valuations at 30 December 2010 were carried out on £2,760.5 million (2009: £3,133.4 million) of the property assets held by the Group and its associates and joint ventures, of which the Group's share was £670.0 million (2009: £750.5 million).

The valuations were carried out by independent qualified professional valuers from CB Richard Ellis Limited, Cushman & Wakefield LLP, DTZ Debenham Tie Leung Limited, Jones Lang LaSalle Limited and King Sturge LLP. These valuers are not connected with the Group and their fees are charged on a fixed basis that is not dependent on the outcome of the valuations. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

Directors' valuations at 30 December 2010 were carried out on £135.7 million (2009: £12.7 million) of an associate's property assets, of which the Group's share was £27.3 million (2009: £12.7 million). The valuations were carried out by Kenneth Ford BSc FRICS and were arrived at by reference to market evidence of transaction prices for similar properties.

11d Loss on sale of properties and investments

	Note	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Loss on sale of MEN Arena joint venture	26, 31	**(0.2)**	–
Profit on sale of Cardiff joint venture		**–**	0.5
Other write-downs, impairments and release of provisions		**–**	(0.7)
		(0.2)	(0.2)

12 Goodwill

	Note	30 December 2010 £m	30 December 2009 £m
At the start of the year		**2.6**	4.2
Provision for impairment	2a, 7a, 10a, 26	**(0.7)**	(1.6)
At the end of the year		**1.9**	2.6

The goodwill carried in the Group balance sheet relates to the management contracts for the X-Leisure fund held by the Group's X-Leisure Limited joint venture. The management contracts are co-terminus with the life of the X-Leisure fund. The goodwill is tested annually for impairment or more frequently if there are indications that it might be impaired. An impairment review was carried out at 30 December 2010 to calculate the recoverable amount of the goodwill based on its value in use, derived from the forecast cash flows generated by the management contracts.

The following key assumptions were applied to the forecast cash flows: (i) the pre-tax rate used to discount the expected cash flows is 11.2%; (ii) management fees receivable are in line with the asset management contract, including both a fixed element and a variable amount dependent on the growth in net operating income of the X-Leisure fund; (iii) Fixed and variable administration costs, are assumed to grow by 2.4% per annum beyond the four-year period modelled in the Group's forecasts; (iv) a performance fee is received on the expiry of the fund based on current forecasts of performance; and (v) the expiry date of the X-Leisure fund is 31 December 2014, with a 50% chance that the life of the fund will be extended to 31 December 2021. If the termination date of the fund were to be the initial expiry date of 31 December 2014, there would be an additional impairment of £0.3 million in the year.

13 Other non-current assets
13a Plant and equipment

	Note	30 December 2010 £m	30 December 2009 £m
Cost or valuation			
At the start of the year		**4.4**	4.3
Additions		**0.5**	0.1
Disposals		**(2.2)**	–
At the end of the year		**2.7**	4.4
Depreciation			
At the start of the year		**(3.4)**	(3.0)
Provided for the year	7a, 26	**(0.5)**	(0.4)
Released on disposal		**2.1**	–
At the end of the year		**(1.8)**	(3.4)
Carrying amount			
At the end of the year		**0.9**	1.0

13b Available for sale investments

	Note	30 December 2010 £m	30 December 2009 £m
Fair value			
At the start of the year		**0.3**	0.2
Increase in fair value		–	0.1
At the end of the year	22a, 22e	**0.3**	0.3

Available for sale investments comprises of £290,175 (2009: £256,000) representing a 0.3% interest in units of the Paddington Central II and III Unit Trusts, and £10,000 (2009: £10,000) representing a 49.99% interest in Bestpark Investments Limited, which is treated as an investment as the Group does not exercise significant influence or control over the entity.

14 Non-current receivables

	Note	30 December 2010 £m	30 December 2009 £m
Financial assets			
Loans to joint ventures	36	**24.7**	23.8
	22a, 22e	**24.7**	23.8
Non-financial assets			
Prepayments		**1.2**	1.2
		25.9	25.0

Interest is payable on loans to joint ventures at normal commercial rates. The Group has pledged loans to joint ventures with a carrying amount of £14.6 million (2009: £15.2 million) to secure banking facilities granted to the Group.

15 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note I to the Company financial statements.

The terms of the Group's central borrowing facility may restrict the ability of Capital & Regional Holdings Limited and its subsidiaries to make cash distributions or repay loans and advances to the Company or elsewhere in the Group if they would thereby cause a default on the facility.

The terms of the borrowing facilities for the Great Northern and Hemel Hempstead properties include cash sweeps that restrict the ability of Morrison Merlin Limited and Capital & Regional Hemel Hempstead (Jersey) Limited to make cash distributions or repay loans and advances to the Company or elsewhere in the Group as disclosed in note 18.

16 Investment in associates and joint ventures
16a Share of results

	Note	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Share of results of associates		**38.4**	(96.2)
Dilution effect of The Junction open offer		–	(2.8)
Dilution effect of X-Leisure open offer		–	(4.4)
	16b	**38.4**	(103.4)
Share of results of joint ventures	16c	**6.8**	(3.4)
	26	**45.2**	(106.8)

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16b Investment in associates

	Note	30 December 2010 £m	30 December 2009 £m
At the start of the year		**76.4**	182.3
Investment in associates		**2.7**	4.6
Share of results of associates	16a, 16d	**38.4**	(103.4)
Impairments		**(0.4)**	(0.4)
Dividends and capital distributions received	36	**(6.3)**	(6.7)
At the end of the year	16d	**110.8**	76.4

The Group's associates are:

	Group interest At the start of the year %	Average during the year %	At the end of the year %
The Mall Limited Partnership	16.72	16.72	16.72
The Junction Limited Partnership	13.21	13.29	13.29
X-Leisure Limited Partnership	11.93	11.93	11.93
The FIX UK Limited Partnership	20.00	20.00	20.00
Garigal Asset Management GmbH ("Garigal")	–	30.06	30.06
Euro B-Note Holding Limited	–	49.90	49.90

Whilst the Group holds less than 20% in The Mall Limited Partnership, The Junction Limited Partnership and X-Leisure Limited Partnership, they are accounted for as associates as the Group has significant influence arising from its representation on the General Partner boards. The Group holds 20% of The FIX UK Limited Partnership and exercises significant influence through its representation on the General Partner board and holds 30.06% of Garigal and exercises significant influence through its representation on the advisory board. The Group holds an effective 49.90% of Euro B-Note Holding Limited and exercises significant influence through its ownership interest.

The Mall Limited Partnership

On 21 July 2010, The Mall completed a restructuring of its borrowing arrangements. Unitholders agreed to an extension of the life of the fund from June 2012 to June 2017, whilst bondholders agreed to an extension of the maturity of the Secured Floating Rate Notes from April 2014 to April 2017. The Intercompany Loan from the funding entity to The Mall Limited Partnership, which represents the effective maturity of the borrowing from the fund's perspective, was also extended from April 2012 to April 2015.

The key elements of the restructuring were:

- an increase in the margin payable on the Notes from 0.18% to 0.68% with effect from April 2011; As a result of amendments to the fund's hedging instruments, the interest rate payable on the bonds over the period to 2015 will, for most of the period be below 5%;
- mandatory amortisation of the Intercompany Loan to £800 million by December 2012 and £600 million by December 2014; Following the repayments during the year, the amount outstanding of £827.7 million at 30 December 2010 is already close to the initial target well in advance of the due date;
- the introduction of an 83% LTV covenant from December 2011, reducing in stages to 65% in December 2014;
- a suspension of the current release price mechanism until LTV is below 60% and debt less than £600 million, which will allow the sale of properties where the proceeds would be below the historically determined release price; and
- the restriction of distributions until LTV is below 60% and debt less than £600 million.

A contribution of £155 million was also made from the fund's cash reserves, with £50 million used to repay existing debt, £85 million set aside for leasing incentives, capital expenditure and working capital requirements, and £20 million covering the costs of the transaction, including swap breakage costs and consent solicitation fees.

16b Investment in associates continued

The Junction Limited Partnership

Under the terms of The Junction Limited Partnership fund's open offer in 2009 the Group's share fell to 13.44% and adjustments could be made to the price at which new units were issued to reflect the recoverability of debtors and the expected costs of certain remedial works. An impairment of £0.4 million had been made at 30 December 2009 to reflect the expected impact of these adjustments, at which level the Group's share in the fund would have been reduced to 13.21%. At 30 December 2010, the expected impact of these adjustments would mean the Group's share in the fund would be reduced to 13.29%, resulting in a reversal of £0.2 million of the prior year impairment charge. The adjustment includes the effect of backdating the changed ownership percentage to May 2009.

X-Leisure Limited Partnership

As disclosed in note 35, Hermes sold their investments in X-Leisure and X-Leisure Limited to AREA on 18 March 2011 which resulted in amendments to management contracts but has no material impact on the Group.

The FIX UK Limited Partnership

The fund was at risk of breaching its LTV covenant early in the year but on 22 January 2010 agreed a refinancing package with its banks that included an LTV waiver until September 2011. The value of the Group's investment in FIX UK was £nil in 2009 but a further equity contribution of £1.1 million in 2010, that was part of the refinancing package, together with the profit generated by FIX UK in the year, mean it is now included at a value of £1.0 million. The unrecognised share of losses at the end of the year was £nil (2009: £0.6 million).

Garigal Asset Management GmbH

As disclosed in note 29, the 30.06% share in Garigal was purchased on 10 August 2010 and the Group's share of its results is included from that date, along with the goodwill arising from the investment in associate. Performance fees that could potentially be earned by Garigal in future are disclosed in note 35.

Euro B-Note Holding Limited

As disclosed in note 30, the effective 49.90% share in Euro B-Note Holding Limited was purchased on 22 December 2010 for €1.9 million (£1.6 million) and the Group's share of its results is included from that date.

Cash distributions

The borrowing arrangements of The Mall, The Junction, X-Leisure and FIX UK include certain terms including cash sweeps that may restrict their ability to make cash distributions to the Group as follows:

- The Mall is unable to make distributions as long as its LTV is above 60% and its debt above £600 million.
- The Junction is able to make distributions and made a distribution to the Group of £5.6 million during the year because its LTV is below 65%.
- X-Leisure is able to make distributions and made a distribution to the Group of £0.7 million during the year because its LTV is below 65%.
- FIX UK is unable to make distributions until the expiry of its loans in February 2013.

16c Investment in joint ventures

	Note	**30 December 2010 £m**	30 December 2009 £m
At the start of the year		**30.3**	34.4
Investment in joint ventures		**–**	2.1
Share buy backs from joint ventures		**(0.6)**	–
Net liabilities of Cardiff joint venture disposed of		**–**	0.5
Net assets of MEN Arena joint venture disposed of	31	**(5.9)**	–
Dividends and capital distributions receivable	36	**(3.4)**	(0.7)
Share of results of joint ventures	16a, 16e	**6.8**	(3.4)
Foreign exchange differences		**(1.5)**	(2.6)
At the end of the year	16e	**25.7**	30.3

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16c Investment in joint ventures continued

The Group's significant joint ventures are:

	Group interest		
	At the start of the year %	Average during the year %	At the end of the year %
German portfolio	50.00	50.00	50.00
X-Leisure Limited	50.00	50.00	50.00
Xscape Braehead Partnership	50.00	50.00	50.00
The Auchinlea Partnership	50.00	50.00	50.00
Manchester Arena Complex Limited Partnership	30.00	30.00	–

The Group's share in the German portfolio is 49.6% (2009: 48.8%) but it is accounted for as 50% as the minority interests are included as a liability on the joint venture balance sheet. During the year the German portfolio bought out 1.6% of the minority interests for £1.0 million from existing cash reserves, with the impact on the Group being an increase in the share of the German portfolio of 0.8%.

German portfolio
During 2010, two loans were refinanced. The first was a €46.5 million facility with Bank of Scotland which has been extended to December 2013 at a lower principal amount of €40 million, as the proceeds of two disposals were used to pay off the remainder of the debt. The second was a €65 million facility with Eurohypo comprising two loans which were extended to December 2013.

The main focus is now on the refinancing of a €164 million debt in one of the German portfolios which matures in July 2011. The debt is made up of €146 million of senior debt which is held in an Irish securitisation vehicle, and €18 million of junior debt which was acquired by the Group and the German joint venture partner shortly before year end at a discount reducing the refinancing risk as disclosed in note 30.

All LTV and ICR covenants on the German debt portfolios were met at 30 December 2010, however the LTV on the debt maturing in July 2011 is expected to be breached when a formal valuation is called as part of the refinancing arrangements but the expectation is that this will be simultaneously waived as part of the refinancing agreement.

During the year the German portfolio made distributions to the Group of £3.1 million.

X-Leisure Limited
As disclosed in note 35, Hermes sold their investments in X-Leisure and X-Leisure Limited to AREA on 18 March 2011 which resulted in amendments to management contracts but has no material impact on the Group. Performance fees that could potentially be earned by X-Leisure Limited in future are disclosed in note 36.

During the year X-Leisure Limited made distributions to the Group of £0.3 million.

Xscape Braehead Partnership
The debt breached its LTV covenant in February 2010 and in April 2010, the Group and its joint venture partner agreed a refinancing of the loan by injecting funds which, together with cash already held in the partnership, reduced the debt to £45.6 million. The bank agreed to a standstill on the LTV breach prior to the refinancing being agreed. The terms of the loan were also renegotiated which increased the margin from 1% to 2% which will be rolled up for payment in March 2012.

The Auchinlea Partnership
The Auchinlea Partnership held the Group's interest in Glasgow Fort. Since the sale of this interest in 2004 the Group has received a total of £8.6 million further profit from its remaining interest in the joint venture. Further profits were potentially receivable, largely dependent on planning consent being obtained for future phases of the development and the letting of units at above target rents. The Group has also given certain rental guarantees for a five-year period and has made provision for the amounts which are expected to be paid in respect of these. The Group's share of the fair value of the right to receive these future profits at 30 December 2010 is £nil (2009: £nil), as the necessary development did not take place in the timescale provided.

Manchester Arena Complex Limited Partnership
As disclosed in note 31, the 30% investment in Manchester Arena Complex Limited Partnership, which owned the MEN Arena investment property, was sold on 15 June 2010 and the Group's share of its results is included up to that date.

16d Analysis of investment in associates

	Note	The Mall £m	The Junction £m	X-Leisure £m	Others £m	**Year to 30 December 2010 Total £m**	Year to 30 December 2009 Total £m
Income statement (100%)							
Revenue – gross rent		114.6	30.3	42.3	10.6	**197.8**	247.7
Property and management expenses		(22.4)	(2.7)	(7.8)	(1.1)	**(34.0)**	(48.9)
Void costs		(7.5)	(1.1)	(1.7)	–	**(10.3)**	(11.1)
Net rent		84.7	26.5	32.8	9.5	**153.5**	187.7
Net interest payable		(60.0)	(25.7)	(23.0)	(10.3)	**(119.0)**	(133.0)
Contribution		24.7	0.8	9.8	(0.8)	**34.5**	54.7
Revenue – management fees		–	–	–	0.9	**0.9**	–
Management expenses		–	–	–	(0.8)	**(0.8)**	–
Revaluation of investment properties		105.5	23.4	68.3	(2.8)	**194.4**	(458.3)
Profit/(loss) on sale of investment properties		18.0	14.0	1.5	–	**33.5**	(54.3)
Loan renegotiation costs		–	–	–	–	**–**	(4.6)
Fair value of interest rate swaps		(1.2)	(10.6)	(8.5)	6.6	**(13.7)**	5.4
Profit/(loss) for the year		147.0	27.6	71.1	3.1	**248.8**	(457.1)
Balance sheet (100%)							
Investment properties	11c	1,139.0	458.9	520.6	134.5	**2,253.0**	2,454.9
Investment properties held for sale	11c	50.0	–	–	–	**50.0**	–
Other assets		160.4	48.9	40.9	14.1	**264.3**	400.9
Current liabilities		(106.6)	(38.6)	(47.2)	(11.0)	**(203.4)**	(251.8)
Non-current liabilities		(898.6)	(290.2)	(296.4)	(126.0)	**(1,611.2)**	(2,060.7)
Net assets (100%)		344.2	179.0	217.9	11.6	**752.7**	543.3
Income statement (Group share)							
Revenue – gross rent		19.5	4.0	5.1	2.0	**30.6**	41.8
Property and management expenses		(3.8)	(0.4)	(1.0)	(0.2)	**(5.4)**	(8.3)
Void costs		(1.3)	(0.1)	(0.2)	–	**(1.6)**	(1.8)
Net rent		14.4	3.5	3.9	1.8	**23.6**	31.7
Net interest payable	2a	(10.0)	(3.4)	(2.7)	(2.0)	**(18.1)**	(22.5)
Contribution	2a	4.4	0.1	1.2	(0.2)	**5.5**	9.2
Revenue – management fees		–	–	–	0.3	**0.3**	–
Management expenses		–	–	–	(0.3)	**(0.3)**	–
Deemed disposal	2a	–	–	–	–	**–**	(7.2)
Revaluation of investment properties	10b	17.6	3.1	8.1	(0.4)	**28.4**	(95.2)
Profit/(loss) on sale of investment properties	10b	3.0	1.8	0.2	–	**5.0**	(9.2)
Loan renegotiation costs		–	–	–	–	**–**	(0.8)
Fair value of interest rate swaps	10b	(0.2)	(1.4)	(1.0)	1.2	**(1.4)**	(0.2)
Gain recognised on investment in Garigal	29	–	–	–	0.9	**0.9**	–
Profit/(loss) for the year	16b	24.8	3.6	8.5	1.5	**38.4**	(103.4)
Balance sheet (Group share)							
Investment properties		190.4	61.0	62.1	26.9	**340.4**	367.8
Investment properties held for sale		8.4	–	–	–	**8.4**	–
Other assets		26.8	6.5	4.9	4.2	**42.4**	62.7
Current liabilities		(17.8)	(5.1)	(5.6)	(2.5)	**(31.0)**	(38.0)
Non-current liabilities		(150.2)	(38.6)	(35.4)	(25.2)	**(249.4)**	(315.4)
		57.6	23.8	26.0	3.4	**110.8**	77.1
C&R accounting policy adjustment		–	–	–	–	**–**	(0.3)
Impairment		–	–	–	–	**–**	(0.4)
Net assets (Group share)	16b	57.6	23.8	26.0	3.4	**110.8**	76.4

16e Analysis of investment in joint ventures

	Note	German portfolio £m	Others £m	**Year to 30 December 2010 Total £m**	Year to 30 December 2009 Total £m
Income statement (100%)					
Revenue – gross rent		38.0	6.2	**44.2**	50.5
Property and management expenses		(6.6)	(1.4)	**(8.0)**	(7.2)
Void costs		(0.2)	–	**(0.2)**	(0.9)
Net rent		31.2	4.8	**36.0**	42.4
Net interest payable		(21.1)	(5.0)	**(26.1)**	(29.9)
Contribution		10.1	(0.2)	**9.9**	12.5
Revenue – management fees		–	4.7	**4.7**	1.7
Management expenses		–	(3.5)	**(3.5)**	(1.3)
Revaluation of investment properties		0.4	3.4	**3.8**	(18.5)
(Loss)/profit on sale of investment properties		(1.1)	0.5	**(0.6)**	(0.1)
Fair value movements of financial assets		–	–	**–**	(0.2)
Write-off of SNO!zone tenant incentives		–	(2.1)	**(2.1)**	–
Fair value of interest rate swaps		5.3	1.4	**6.7**	(1.3)
Profit/(loss) before tax		14.7	4.2	**18.9**	(7.2)
Tax		(3.7)	(0.4)	**(4.1)**	2.5
Profit/(loss) after tax		11.0	3.8	**14.8**	(4.7)
Balance sheet (100%)					
Investment properties	11c	495.7	45.2	**540.9**	640.2
Investment properties held for sale	11c	–	–	**–**	3.0
Current assets		22.8	13.8	**36.6**	42.5
Current liabilities		(165.9)	(7.8)	**(173.7)**	(37.4)
Non-current liabilities		(287.2)	(65.5)	**(352.7)**	(581.4)
Net assets (100%)		65.4	(14.3)	**51.1**	66.9
Income statement (Group share)					
Revenue – gross rent		19.0	2.6	**21.6**	24.1
Property and management expenses		(3.3)	(0.4)	**(3.7)**	(3.4)
Void costs		(0.1)	–	**(0.1)**	(0.4)
Net rent		15.6	2.2	**17.8**	20.3
Net interest payable	2a	(10.5)	(2.3)	**(12.8)**	(14.3)
Contribution	2a	5.1	(0.1)	**5.0**	6.0
Revenue – management fees		–	2.4	**2.4**	0.9
Management expenses		–	(1.8)	**(1.8)**	(0.7)
Revaluation of investment properties	10b	0.2	1.2	**1.4**	(10.4)
(Loss)/profit on sale of investment properties	10b	(0.6)	0.3	**(0.3)**	–
Fair value movements of financial assets		–	–	**–**	(0.1)
Write-off of SNO!zone tenant incentives		–	(1.0)	**(1.0)**	–
Fair value of interest rate swaps	10b	2.6	0.6	**3.2**	(0.8)
C&R accounting policy adjustment		–	–	**–**	0.5
Profit/(loss) before tax		7.3	1.6	**8.9**	(4.6)
Tax		(1.9)	(0.2)	**(2.1)**	1.2
Profit/(loss) after tax	16c	5.4	1.4	**6.8**	(3.4)
Balance sheet (Group share)					
Investment properties		247.9	22.6	**270.5**	307.4
Investment properties held for sale		–	–	**–**	1.5
Current assets		11.4	6.9	**18.3**	19.4
Current liabilities		(82.9)	(3.9)	**(86.8)**	(17.2)
Non-current liabilities		(143.7)	(32.6)	**(176.3)**	(281.3)
		32.7	(7.0)	**25.7**	29.8
C&R accounting policy adjustment		–	–	**–**	0.5
Net assets (Group share)	16c	32.7	(7.0)	**25.7**	30.3

17 Current receivables

	Note	30 December 2010 £m	30 December 2009 £m
Financial assets			
Trade receivables		**1.7**	1.5
Amounts owed by associates	36	**1.4**	0.7
Amounts owed by joint ventures	36	**0.2**	0.6
Other receivables		**0.9**	2.0
Accrued income		**0.6**	0.3
Non-derivative financial assets	22a, 22e	**4.8**	5.1
Financial assets carried at fair value through the profit or loss – Foreign exchange forward contracts	22a, 22e, 22f	**0.6**	–
		5.4	5.1
Non-financial assets			
Prepayments		**1.7**	1.8
		7.1	6.9

Trade receivables largely comprise amounts owed by tenants of the Group's wholly owned properties. Before accepting a new tenant, a review of its creditworthiness is carried out using an external credit scoring system and other publicly available financial information. Included in the trade receivables balance are debtors with a carrying amount of £2.3 million (2009: £4.8 million) which are past due at the reporting date for which the Group has not provided, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds collateral of £0.2 million (2009: £0.2 million) over trade receivables as security deposits held in rent accounts. The average age of trade receivables is 31 days (2009: 63 days).

	30 December 2010 £m	30 December 2009 £m
Analysis of non-derivative current financial assets		
Not past due	**2.5**	0.3
Past due but not individually impaired:		
– Less than one month	**1.2**	2.7
– One to three months	**0.3**	0.2
– Three to six months	**–**	1.0
– Over six months	**0.8**	0.9
	4.8	5.1

	30 December 2010 £m	30 December 2009 £m
Allowances for doubtful receivables		
At the start of the year	**0.8**	0.2
Additional allowances created	**0.1**	0.6
Utilised during the year	**(0.1)**	–
At the end of the year	**0.8**	0.8

18 Cash and cash equivalents

	Note	30 December 2010 £m	30 December 2009 £m
Cash at bank		**23.0**	15.4
Security deposits held in rent accounts		**0.2**	0.2
Other restricted balances		**2.5**	1.9
	22a, 22e	**25.7**	17.5

18 Cash and cash equivalents continued

Other restricted balances include amounts subject to a charge against various borrowings and may therefore not be available for general use by the Group.

The analysis of cash and cash equivalents by currency is as follows:

	30 December 2010 £m	30 December 2009 £m
Sterling	**25.2**	16.6
Euro	**0.5**	0.9
	25.7	17.5

19 Current payables

	Note	**30 December 2010 £m**	30 December 2009 (restated) £m
Financial liabilities			
Trade payables	22a, 22e	**0.2**	2.1
Accruals	22a, 22e	**2.0**	5.9
Payable to associates	22a, 22e, 36	**0.7**	2.7
Financial liabilities carried at fair value through profit or loss:			
– Foreign exchange forward contracts	22a, 22f	**–**	1.4
Other payables	22a, 22e	**3.4**	3.9
		6.3	16.0
Non-financial liabilities			
Deferred income		**3.4**	3.2
Other taxation and social security		**1.2**	1.4
		10.9	20.6

The average age of trade payables is 30 days (2009: 53 days) and no amounts incur interest (2009: £nil).

As disclosed in note 1 the financial liability of £3.4 million at 30 December 2009 related to the interest rate swap has been reclassified from current payables to non-current payables in note 20 as it has a maturity of more than twelve months from the balance sheet date and it is not intended to be settled within one year.

20 Non-current payables

	Note	**30 December 2010 £m**	30 December 2009 (restated) £m
Financial liabilities			
Accruals	22a, 22e	**0.3**	–
Financial liabilities carried at fair value through profit or loss:			
– Interest rate swaps	22a, 22f	**4.5**	3.4
		4.8	3.4
Non-financial liabilities			
Other payables		**–**	2.2
		4.8	5.6

The liability of £1.9 million (2009 liability: £2.2 million) representing unamortised tenant incentives relating to the SNO!zone Braehead lease was written back during the year. The restatement of non-current payables at 30 December 2009 is explained in note 19.

21 Borrowings
21a Summary of borrowings

The Group generally borrows on a secured basis and borrowings are arranged to ensure an appropriate maturity profile and to maintain short-term liquidity. Short, medium and long-term funding is raised principally through revolving credit facilities from a range of banks and financial institutions. There were no defaults or other breaches of financial covenants that were not waived under any of the Group's borrowings during the current year or the preceding year.

Borrowings at amortised cost	Note	30 December 2010 £m	30 December 2009 £m
Secured			
Fixed and swapped bank loans	21d	**60.8**	61.5
Variable rate bank loans	21d	**9.7**	18.9
Total borrowings before costs	21b, 22f	**70.5**	80.4
Unamortised issue costs		**(1.1)**	(1.6)
Total borrowings after costs		**69.4**	78.8
Analysis of total borrowings after costs			
Current	22a	**0.6**	0.2
Non-current	22a	**68.8**	78.6
Total borrowings after costs		**69.4**	78.8

Borrowings financing certain wholly owned properties are secured by charges on those properties, which are carried at £80.6 million (2009: £91.8 million) as disclosed in note 11a. The Group's central borrowing facility is secured by charges over the units the Group holds in The Mall, The Junction and X-Leisure funds carried at £107.4 million (£2009: £76.4 million), charges over certain holdings in and loans to the German joint venture carried at £42.0 million (2009: £37.2 million), and guarantees by the Company.

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21b Maturity of borrowings

	Note	30 December 2010 £m	30 December 2009 £m
From two to five years		**63.6**	72.5
From one to two years		**5.9**	7.2
Due after more than one year		**69.5**	79.7
Current		**1.0**	0.7
	21a	**70.5**	80.4

21c Undrawn committed facilities

	30 December 2010 £m	30 December 2009 £m
Expiring between two and five years	**58.0**	58.0

The undrawn amount represents the balance on the Group's central revolving credit facility. Under the terms of the loan covenants, as disclosed in note 22e, £58.0 million (2009: £58.0 million) was actually available for drawdown at year end. The Articles of the Company also restrict borrowing but this did not limit the amount available for drawdown on the facility during the current year or the preceding year.

21d Interest rate and currency profile of borrowings

	Note	30 December 2010 £m	30 December 2009 £m
Fixed and swapped rate borrowings			
6% to 7%		**60.8**	61.5
	21a	**60.8**	61.5
Floating rate borrowings	21a	**9.7**	18.9
		70.5	80.4

All loans are sterling denominated with the weighted average length of fix being 2.8 years (2009: 3.8 years). Floating rate borrowings bear interest based on three month LIBOR.

22 Financial instruments
22a Overview

Capital risk management

The Group manages its capital to ensure that all entities in the Group will be able to continue as going concerns while maximising the returns to shareholders through the optimisation of the debt and equity balance. The overall strategy of reducing the Group's levels of balance sheet and see-through debt remained unchanged from 2009.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21a; cash and cash equivalents as disclosed in note 18; and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Statement of changes in equity. For the purpose of calculating gearing ratios, debt is defined as long and short-term borrowings (excluding derivatives) excluding unamortised issue costs. Equity includes all capital and reserves of the Group attributable to equity holders of the Company.

The Group is not subject to externally imposed capital requirements. The Board reviews the capital structure and cost of capital on an annual basis but does not set specific targets for gearing ratios. The risks associated with each class of capital are also considered as part of the risk reviews presented to the Audit Committee and the Board. The Group has met its objectives for managing capital during 2010, with a reduction in its net debt to equity ratios largely as a result of property disposals.

Gearing ratios

Statutory	Note	30 December 2010 £m	30 December 2009 £m
Debt before unamortised issue costs	21a	**70.5**	80.4
Cash and cash equivalents	18	**(25.7)**	(17.5)
Group net debt		**44.8**	62.9
Cash adjustment[1]		**5.0**	–
Adjusted group net debt		**49.8**	62.9
Equity		**174.5**	129.8
Debt to equity ratio		**40%**	62%
Net debt to equity ratio		**26%**	48%
Adjusted net debt to equity ratio		**29%**	48%

22a Overview continued

See-through	Note	30 December 2010 £m	30 December 2009 (restated)[3] £m
Debt before unamortised issue costs	22f	**532.2**	660.3
Cash and cash equivalents		**(64.7)**	(76.4)
See-through net debt		**467.5**	583.9
Cash adjustment[1]		**5.0**	–
German debt adjustment[2]		**(7.8)**	–
Adjusted see-through net debt		**464.7**	583.9
Equity		**174.5**	129.8
Debt to equity ratio		**305%**	509%
Net debt to equity ratio		**268%**	450%
Adjusted net debt to equity ratio		**266%**	450%
Property assets – wholly owned	11c	**80.8**	94.4
Investment properties – associates	16d	**348.8**	367.8
Investment properties – joint ventures	16e	**270.5**	308.9
Property value		**700.1**	771.1
Debt to property value ratio		**76%**	86%
Net debt to property value ratio		**67%**	76%
Adjusted net debt to property value ratio		**66%**	76%

[1] Cash adjustment for the £5.0 million tax payment made on 31 December 2010 related to current tax liabilities recorded at 30 December 2010 as disclosed in note 35

[2] Debt adjustment for the Group's share of the €18 million German junior debt acquired during the year as disclosed in note 16c

[3] See-through debt before unamortised issues costs has been restated to include FIX UK as the Group's investment is no longer impaired to £nil as it was in 2009. See-through cash and cash equivalents and the resulting ratios have been restated to be on a consistent basis with the current year

Categories of financial assets/(liabilities)

		2010			2009		
	Note	Carrying value £m	Gain/(loss) to income £m	(Loss)/gain to equity £m	Carrying value £m	Gain/(loss) to income £m	(Loss)/gain to equity £m
Financial assets							
Investments	13b	**0.3**	–	–	0.3	0.1	–
Available for sale		**0.3**	–	–	0.3	0.1	–
Loans to joint ventures	14,36	**24.7**	**1.1**	**(1.1)**	23.8	1.2	(1.7)
Current receivables	17	**4.8**	**(0.1)**	–	5.1	(0.6)	–
Cash and cash equivalents	18	**25.7**	**0.1**	–	17.5	0.1	–
Loans and receivables		**55.2**	**1.1**	**(1.1)**	46.4	0.7	(1.7)
Foreign exchange forward contracts	17	**0.6**	**(0.1)**	**2.2**	–	–	–
Derivatives in effective hedges		**0.6**	**(0.1)**	**2.2**	–	–	–
Financial liabilities							
Trade payables	19	**(0.2)**	–	–	(2.1)	–	–
Accruals	19, 20	**(2.3)**	–	–	(5.9)	0.4	–
Payable to associates	19	**(0.7)**	–	–	(2.7)	–	–
Other payables	19	**(3.4)**	**(0.3)**	–	(3.9)	(0.1)	–
Liabilities relating to properties held for sale		–	–	–	(1.0)	–	–
Current borrowings	21a	**(0.6)**	–	–	(0.2)	–	–
Non-current borrowings	21a	**(68.8)**	**(5.9)**	–	(78.6)	(6.8)	–
Liabilities at amortised cost		**(76.0)**	**(6.2)**	–	(94.4)	(6.5)	–
Foreign exchange forward contracts	19	–	–	–	(1.4)	0.1	3.9
Derivatives in effective hedges		–	–	–	(1.4)	0.1	3.9
Interest rate swaps	20	**(4.5)**	**(1.1)**	–	(3.4)	(3.4)	–
Liabilities at fair value held for trading		**(4.5)**	**(1.1)**	–	(3.4)	(3.4)	–
Total financial (liabilities)/assets		**(24.4)**	**(6.3)**	**1.1**	(52.5)	(9.0)	2.2

3: Financial statements

22a Overview continued

Significant accounting policies

Details of the significant accounting policies adopted in respect of each class of financial asset, financial liability and equity instrument, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, are disclosed in the accounting policies in note 1.

Financial risk management objectives

Exposure to credit, interest rate and currency risks arise in the normal course of the Group's business. The Group seeks to minimise the effect of these risks by using derivative financial instruments to manage exposure to fluctuations in interest rates and foreign currency exchange rates. Such instruments are not employed for speculative purposes. The use of any derivatives is approved by the Board, which provides guidelines on the acceptable levels of interest rate risk, credit risk, foreign exchange risk and liquidity risk, and the ranges of hedging required against these risks.

22b Interest rate risk

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 Group's objective in managing its interest rate risk is to ensure that it always maintains sufficient headroom to cover interest payments from anticipated cash flows and the directors regularly review the ratio of fixed to floating rate debt to assist this process. The Group is exposed to fair value risk from its fixed rate debt and interest rate risk from its floating rate debt, loans to joint ventures and cash. The Group does not hedge account its interest rate swaps and states them at fair value with changes in fair value included in the income statement.

The following table shows the remaining terms and other details of the Group's interest rate swap contracts:

	Average contract fixed rate		Notional principal amount		Fair value	
	30 December 2010 %	30 December 2009 %	**30 December 2010 £m**	30 December 2009 £m	**30 December 2010 £m**	30 December 2009 £m
Two to five years	**4.42**	4.42	**60.8**	61.5	**(4.5)**	(3.4)
			60.8	61.5	**(4.5)**	(3.4)

Interest rate risk sensitivity analysis is determined by applying a change in interest rates to financial assets and financial liabilities at the balance sheet date. In order to be representative of the Group's exposure to interest rate risk, financial liabilities include interest rate swaps held in associates and joint ventures. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. An increase/decrease of 1% in interest rates would have increased/decreased the Group's annual profit before tax by £11.8 million (2009: £15.2 million) with no impact on other equity reserves (2009: £nil).

The Group's sensitivity to interest rates has decreased during the current year as a result of the repayment of Group debt and debt held by joint ventures and associates. The termination of certain interest rate swaps in connection with these repayments of debt has also reduced the Group's sensitivity to interest rates, as it holds fewer derivative contracts whose values are based on forecasts of future interest rates.

22c Credit risk

The Group's principal financial assets are loans to joint ventures, bank and cash balances, short-term deposits, trade and other receivables and investments. Credit risk, being the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group, is primarily attributable to loans to joint ventures, and trade and other receivables, which are principally amounts due from associates and joint ventures. As a result there is a concentration of credit risk arising from the Group's exposure to these associates and joint ventures but the Group does not consider this risk to be material as it is mitigated by the significant influence that it is able to exercise through its holdings and management responsibilities in relation to those associates and joint ventures.

The credit risk on short-term deposits and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group is not exposed to significant credit risk on its other financial assets.

22d Foreign exchange risk

The Group has investments in and loans to a number of joint ventures with property investments in Germany which have the euro as their functional currency, and is therefore exposed to exchange rate fluctuations. The Group has designated one (2009: one) forward foreign exchange contract as a hedge of its net investment in these German joint ventures, selling €47.0 million (2009: €47.0 million) at a fixed exchange rate of 0.87489 (2009: 0.87505). In 2010 the ineffective portion of the hedge resulted in a charge of £0.1 million (2009: income of £0.2 million) to the income statement. As disclosed in note 35, this hedge was extended in January 2011 until June 2012.

Only the spot element of the forward foreign exchange contracts is designated as the hedging instrument, determined as the undiscounted difference between the spot rate on the trade date and the spot rate on the revaluation date applied to the notional. The unhedged forward element of the fair value is determined as the total fair value less the spot element. Changes in the forward element of the fair value are reported through the income statement as finance income or finance costs as appropriate. During the year, this change in the unhedged element of the fair value was £nil (2009: loss of £0.1 million) as disclosed in note 6.

Foreign currency risk sensitivity analysis is determined by applying a change in foreign currency rates to outstanding foreign currency denominated items at the reporting date. The following table details the Group's sensitivity to a 10% change in foreign currency rates, where a positive number indicates a decrease in loss before tax or increase in other equity reserves. The Group's sensitivity to foreign currency movements has increased during the current year following the changes to the hedge mentioned above.

	Year to 30 December 2010 £m	Year to 30 December 2009 £m
10% strengthening in sterling against the euro		
Increase in profit before tax (2009: decrease in loss before tax)	**(0.2)**	0.1
Increase in other equity reserves	**2.7**	2.5
10% strengthening in the euro against sterling		
Decrease in profit before tax (2009: increase in loss before tax)	**0.3**	–
Decrease in other equity reserves	**(3.3)**	(2.6)

22e Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The day-to-day operations of the Group are largely funded through the items included in the breakdown of recurring profit included in note 2a. The majority of income within recurring profit is received quarterly, since the inflows and outflows from net rental income and net interest payable generally coincide with English quarter days, and property management fees are billed to the funds quarterly. As a result, the Group normally has sufficient funds to cover recurring administrative expenses which occur throughout the year.

Liquidity risk therefore arises principally from the need to make payments for non-recurring items, such as management incentive schemes, tax payments and the close out of derivative financial instruments. Payments may also be necessary against bank debt facilities to prevent covenant breaches on loans related to the Group's wholly owned properties or to cover losses in the Group's joint ventures, or to repay loans when they fall due.

The Group's objective in managing liquidity risk is to ensure that it has sufficient funds to meet all its potential liabilities as they fall due, both in normal market conditions and when considering negative projections against expected outcomes, so as to avoid the risk of incurring contractual penalties or damaging the Group's reputation. The Group's treasury department maintains a rolling 18-month forecast of anticipated recurring and non-recurring cash flows under different scenarios. This is compared to expected cash balances and amounts available for drawdown on the Group's core revolving credit facility to ensure that any potential shortfalls in funding are identified and managed.

The Group's primary means of managing liquidity risk is the £58.0 million (2009: £58.0 million) core revolving credit facility, expiring in September 2013, of which £58.0 million (2009: £58.0 million) was undrawn at the end of the year as disclosed in note 21c. At the balance sheet date, £58.0 million (2009: £58.0 million) of this undrawn amount was available for drawdown under the covenants on the facility.

22e Liquidity risk continued

The following table shows the maturity analysis of non-derivative financial assets/(liabilities) at the balance sheet date and, where applicable, their effective interest rates.

2010	Note	Effective interest rate %	Less than 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m	**Total £m**
Financial assets							
Available for sale investments	13b		0.3	–	–	–	**0.3**
Non-current receivables	14	4.97	–	3.7	21.0	–	**24.7**
Current receivables	17		4.8	–	–	–	**4.8**
Cash and cash equivalents	18	0.75	25.7	–	–	–	**25.7**
			30.8	3.7	21.0	–	**55.5**
Financial liabilities							
Borrowings – fixed and swapped bank loans	21a	6.26	–	–	(60.8)	–	**(60.8)**
Borrowings – variable rate bank loans	21a	3.24	(1.0)	(5.9)	(2.8)	–	**(9.7)**
Current payables	19		(6.3)	–	–	–	**(6.3)**
Non-current payables	20		–	–	(0.3)	–	**(0.3)**
			(7.3)	(5.9)	(63.9)	–	**(77.1)**

2009	Note	Effective interest rate %	Less than 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Financial assets							
Available for sale investments	13b		0.3	–	–	–	0.3
Non-current receivables	14	4.86	–	–	23.8	–	23.8
Current receivables	17		5.1	–	–	–	5.1
Cash and cash equivalents	18	0.75	17.5	–	–	–	17.5
			22.9	–	23.8	–	46.7
Financial liabilities							
Borrowings – fixed and swapped bank loans	21a	6.21	–	–	(61.5)	–	(61.5)
Borrowings – variable rate bank loans	21a	3.47	(0.7)	(7.2)	(11.0)	–	(18.9)
Current payables	19		(14.6)	–	–	–	(14.6)
Non-current payables			–	–	–	(1.0)	(1.0)
			(15.3)	(7.2)	(72.5)	(1.0)	(96.0)

The following table indicates the dates of contractual repricing of the Group's fixed and swapped bank loans:

Fixed and swapped bank loans	Less than 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
2010	**–**	**–**	**60.8**	**–**	**60.8**
2009	–	–	61.5	–	61.5

22e Liquidity risk continued

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash inflows/(outflows) of financial liabilities based on the earliest date on which the Group can be required to pay, including both interest and principal cash flows.

2010	Less than 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m	**Total £m**
Non-interest bearing	(6.3)	–	(0.3)	–	–	–	**(6.6)**
Variable interest rate instruments	(3.1)	(8.5)	(65.8)	–	–	–	**(77.4)**
	(9.4)	(8.5)	(66.1)	–	–	–	**(84.0)**

2009	Less than 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m	Total £m
Non-interest bearing	(14.6)	–	–	–	–	–	(14.6)
Finance lease liability	–	–	–	–	–	(1.0)	(1.0)
Variable interest rate instruments	(3.2)	(11.7)	(10.5)	(68.4)	–	–	(93.8)
	(17.8)	(11.7)	(10.5)	(68.4)	–	(1.0)	(109.4)

The following tables detail the Group's remaining contractual maturity for its derivative financial assets/(liabilities), all of which are net settled, based on the undiscounted net cash inflows/(outflows). When the amount payable or receivable is not fixed, it has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the reporting date.

2010	Less than 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m	**Total £m**
Net settled							
Interest rate swaps	(2.1)	(1.6)	(0.8)	–	–	–	**(4.5)**
Foreign exchange forward contract	0.6	–	–	–	–	–	**0.6**
	(1.5)	(1.6)	(0.8)	–	–	–	**(3.9)**

2009	Less than 1 year £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m	Total £m
Net settled							
Interest rate swaps	(2.1)	(1.0)	(0.3)	–	–	–	(3.4)
Foreign exchange forward contract	(1.4)	–	–	–	–	–	(1.4)
	(3.5)	(1.0)	(0.3)	–	–	–	(4.8)

22f Fair values of financial instruments

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

	Note	Notional principal £m	2010 Book value £m	2010 Fair value £m	2009 Book value £m	2009 Fair value £m
Financial liabilities not at fair value through income statement						
Sterling denominated loans	21a		**(70.5)**	**(70.5)**	(80.4)	(80.4)
Total on balance sheet borrowings			**(70.5)**	**(70.5)**	(80.4)	(80.4)
Group share of associate borrowings*			**(237.7)**	**(237.7)**	(301.0)	(301.0)
Group share of joint venture borrowings			**(224.0)**	**(225.3)**	(251.4)	(253.6)
Total see-through borrowings	22a		**(532.2)**	**(533.5)**	(632.8)	(635.0)
Derivative assets/(liabilities) at fair value through income statement						
Sterling interest rate swaps	20	**60.8**	**(4.5)**	**(4.5)**	(3.4)	(3.4)
Foreign exchange forward contracts	17,19	**40.5**	**0.6**	**0.6**	(1.4)	(1.4)
Total on balance sheet derivatives			**(3.9)**	**(3.9)**	(4.8)	(4.8)
Group share of sterling interest rate swaps in associates and joint ventures*		**389.6**	**(15.5)**	**(15.5)**	(19.5)	(19.5)
Group share of euro interest rate swaps in joint ventures		**181.7**	**(2.9)**	**(2.9)**	(5.7)	(5.7)
Total see-through derivatives	27		**(22.3)**	**(22.3)**	(30.0)	(30.0)

* Prior year comparatives exclude FIX UK, as the Group's investment was impaired to £nil at that date

The fair value of borrowings has been estimated on the basis of quoted market prices. The fair value of the interest rate swaps has been estimated by calculating the present value of future cash flows, using market discount rates. The fair value of the forward foreign exchange contract has been estimated by applying the quoted forward foreign exchange rate to the undiscounted cash flows at maturity.

Details of the Group's cash and deposits are disclosed in note 18 and their fair values and those of all other financial assets and liabilities are equal to their book values.

Fair value measurements recognised in the consolidated balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010	Note	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Available for sale investments	13b	–	**0.3**	**0.3**
Foreign exchange forward contracts	19	**0.6**	–	**0.6**
		0.6	**0.3**	**0.9**
Financial liabilities				
Interest rate swaps	20	**(4.5)**	–	**(4.5)**
		(4.5)	–	**(4.5)**

There were no transfers between Level 1 and Level 2 in the year. Since the only Level 3 fair value measurements in the year related to available for sale investments, the reconciliation of the movement in these measurements is disclosed in note 13b.

22g Breach of loan agreements

On 4 February 2010, there was a breach of the loan agreement in the Braehead joint venture when the 2009 year-end valuation was provided to the bank showing that the value of the property had fallen below the level required for the LTV covenant. The lender extended the remedy period and on 30 April 2010 the Group and its joint venture partner agreed a refinancing of the loan by injecting funds which, together with cash already held in the partnership, allowed the repayment of £3.4 million of the loan. The terms of the loan were also renegotiated to introduce an LTV holiday until 31 March 2012 and an increase in the margin from 1% to 2%, with the additional margin rolled up for payment in March 2012.

23 Share capital

	Number of shares issued and fully paid		Nominal value of shares issued and fully paid	
	2010 Number	2009 Number	**2010 £m**	2009 £m
Ordinary shares of 10p each				
At the start of the year	**–**	71,348,933	**–**	7.1
Reclassification into ordinary shares of 1p each and deferred shares of 9p each	**–**	(71,348,933)	**–**	(7.1)
At the end of the year	**–**	–	**–**	–
Ordinary shares of 1p each				
At the start of the year	**350,612,754**	–	**3.5**	–
Reclassification from ordinary shares of 10p each	**–**	71,348,933	**–**	0.7
Issued new share capital	**–**	279,263,821	**–**	2.8
At the end of the year	**350,612,754**	350,612,754	**3.5**	3.5
Deferred shares of 9p each				
At the start of the year	**71,348,933**	–	**6.4**	–
Reclassification from ordinary shares of 10p each	**–**	71,348,933	**–**	6.4
At the end of the year	**71,348,933**	71,348,933	**6.4**	6.4
Total called-up share capital	**421,961,687**	421,961,687	**9.9**	9.9

	Number of shares authorised	
	2010 Number	2009 Number
Ordinary shares of 1p each	**857,589,603**	857,589,603
Deferred shares of 9p each	**71,348,933**	71,348,933

The Company has one class of Ordinary shares, which carry voting rights but no right to fixed income. Deferred shares carry neither voting nor dividend rights.

24 Share-based payments

The Group's share-based payments comprise the SAYE scheme, the 2008 LTIP, the COIP and the Matching Share Agreement. The 1998 share option schemes and the 2002 LTIP were also in operation during the year. In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the date of grant, calculated using either a Black-Scholes option pricing model or a Monte Carlo simulation. Any Employers' National Insurance payable on these awards is treated as a cash-settled share-based payment, for which the Group held a liability of £0.1 million (2009: £nil) at the end of the year. The total expense recognised under these share-based payment transactions in the year was as follows:

	Note	**Year to 30 December 2010 £m**	Year to 30 December 2009 £m
Equity-settled share-based payments	8a, 26	**0.7**	0.3
Cash-settled share-based payments		**0.1**	–

24 Share-based payments continued

Share options – SAYE scheme
Details of the share options outstanding under the scheme are as follows:

	Year to 30 December 2010		Year to 30 December 2009	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at the start of the year	**795,369**	**22.8p**	497,257	46.0p
Forfeited/lapsed before the capital raising	**–**	**n/a**	(81,305)	46.0p
Increase resulting from the capital raising	**–**	**n/a**	415,937	n/a
Forfeited/lapsed	**(80,348)**	**22.8p**	(36,520)	22.8p
Exercised	**(23,695)**	**22.8p**	–	n/a
Outstanding at the end of the year	**691,326**	**22.8p**	795,369	22.8p
Exercisable at the end of the year	**–**	**22.8p**	22,524	22.8p

The options outstanding at 30 December 2010 had a weighted average remaining contractual life of 1.52 years (2009: 2.59 years). Options are normally forfeited if an employee leaves the Group before they vest and the charge to the income statement assumes this lapse rate is 40% (2009: 45%), based on the level of staff turnover since the inception of the scheme and future expectations.

Share options – 1998 scheme
Details of the share options outstanding under the scheme are as follows:

	Year to 30 December 2010		Year to 30 December 2009	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at the start of the year	**100,000**	**211.5p**	140,000	205.8p
Expired during the year	**(100,000)**	**211.5p**	(40,000)	191.5p
Outstanding at the end of the year	**–**	**n/a**	100,000	211.5p
Exercisable at the end of the year	**–**	**n/a**	100,000	211.5p

Other share-based payment schemes
The Group's other share-based payment schemes are the 2002 LTIP, the 2008 LTIP, the COIP and the Matching Share Agreement. Details of the shares outstanding under these schemes are as follows:

	2002 LTIP	2008 LTIP	Matching Share Agreement	COIP	**Total**
Outstanding at the start of the year	192,081	–	302,055	1,202,080	**1,696,216**
Granted during the year	–	13,500,000	–	–	**13,500,000**
Forfeited during the year	–	(500,000)	–	–	**(500,000)**
Lapsed during the year	(192,081)	–	–	–	**(192,081)**
Outstanding at the end of the year	–	13,000,000	302,055	1,202,080	**14,504,135**
Fair value of award at grant date	£15.61	£0.20	£4.76	£0.14	

The performance conditions for the 2002 LTIP award were not met so the shares lapsed during the year. The performance conditions for the COIP have also not been met for the performance period to date.

No awards were made under the 2008 LTIP before 8 June 2010, when the scheme was changed following shareholder approval of certain amendments which enabled the grant of one-off awards of up to 360% of salary to directors and certain other key executives to cover the three-year period from 2010 to 2012. These awards are subject to a performance condition based on growth in total shareholder return ("TSR") over the vesting period as follows:

24 Share-based payments continued

Growth in TSR over period	Percentage of award vesting
Under 12% per annum	Nil
12% per annum	20%
Between 12% and 40% per annum	Pro-rata between 20% and 100%
40% per annum or above	100%

Costs of share based payment schemes

Fair values of the schemes above were calculated using the following inputs into the Black-Scholes option pricing model:

	2008 LTIP	SAYE scheme	COIP	Matching Share Agreement
Share price at grant date	31.9p	45.5p	44.75p	553.0p
Exercise price	0.0p	46.0p	0.0p	0.0p
Expected volatility	83%	84%	84%	37%
Expected life (years)	3.00	3.12	3.04	2.99
Risk free rate	1.58%	2.28%	2.58%	3.78%
Expected dividend yield	0%	11.0%	11.2%	4.9%
Correlation	n/a	n/a	29%	30%

Expected volatility is based on the historic volatility of the Group's share price over the three years to the date of grant. The risk free rate is the yield at the date of grant on a gilt-edged stock with a redemption date equivalent to the expected life of the option or the performance period of the relevant scheme. Options are assumed to be exercised at the earliest possible date.

ESOT shareholding

At 30 December 2010, the Capital & Regional plc 2004 Employee Share Trust (the "ESOT") held 2,166,141 (2009: 2,189,836) shares to assist the Group in meeting the outstanding share awards under the schemes described above. The right to receive dividends on these shares has been waived. The market value of these shares at 30 December 2010 was £0.7 million (2009: £0.8 million).

	Number of shares 2010	Number of shares 2009
At the start of the year	**2,189,836**	1,991,760
Purchased in the year	**–**	198,076
Exercised/vested in the year	**(23,695)**	–
At the end of the year	**2,166,141**	2,189,836

25 Reserves

The special reserve arose on the cancellation of the Company's share premium account in 2009. £141.0 million of the share premium account was credited to retained earnings and the balance of £79.5 million remains in the special reserve pending consent from all of the Company's creditors at that date to transfer it to retained earnings. The special reserve is not available for distribution to shareholders but may be used to offset any deficit arising on the Company's retained earnings.

The merger reserve of £60.3 million arose on the Group's capital raising in 2009, which was structured so as to allow the Company to claim merger relief under section 612 of the Companies Act 2006 on the issue of Ordinary shares. The merger reserve is available for distribution to shareholders.

The acquisition reserve of £9.5 million relates to the purchase of the entire ordinary share capital of Morrison Merlin Limited in 2005, prior to which it had been a joint venture in which the Group had a 50% interest. The balance on the reserve arose from the difference at the date of acquisition between the carrying value of the Group's existing interest and its fair value. The reserve will remain on the balance sheet until Morrison Merlin Limited is sold.

The foreign currency reserve of £7.4 million and the net investment hedging reserve deficit of £3.5 million respectively show foreign exchange translation differences from the Group's investment in its German joint venture and any hedges of that investment.

26 Reconciliation of net cash from operations

	Note	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Profit/(loss) on ordinary activities before financing		**52.6**	(105.1)
Adjusted for:			
Share of (profit)/loss in associates and joint ventures	16a	**(45.2)**	106.8
Loss on revaluation of investment properties	11a	**0.2**	2.8
Loss/(profit) on sale of properties and investments	11d	**0.2**	(0.1)
Impairment of goodwill	12	**0.7**	1.6
(Impairment reversal)/impairment of trading properties	4, 11a	**(0.1)**	2.1
Depreciation of other fixed assets	7, 13a	**0.5**	0.4
Decrease in receivables		**0.4**	6.7
Decrease in payables		**(7.1)**	(10.3)
Non-cash movement relating to share-based payments	24	**0.7**	0.3
Net cash from operations		**2.9**	5.2

27 Net assets per share

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

	Note	30 December 2010 Net assets £m	30 December 2010 Number of shares (m)	30 December 2010 Net assets per share (£)	30 December 2009 Net assets per share (£)
Basic net assets		**174.5**	**350.6**	**0.50**	0.37
Own shares held		–	**(2.2)**		
Dilutive contingently issuable shares and share options		–	**0.5**		
Fair value of fixed rate loans (net of tax)		**(0.9)**			
EPRA triple net assets		**173.6**	**348.9**	**0.50**	0.37
Exclude fair value of fixed rate loans (net of tax)		**0.9**			
Exclude fair value of derivatives	22f	**22.3**			
Exclude deferred tax on unrealised gains and capital allowances		**2.6**			
EPRA net assets		**199.4**	**348.9**	**0.57**	0.47

28 Return on equity

	30 December 2010 £m	30 December 2009 £m
Total comprehensive income attributable to equity shareholders	**44.0**	(119.7)
Opening equity shareholders' funds	**129.8**	186.1
Return on equity	**33.9%**	(64.3)%

29 Investment in Garigal Asset Management GmbH

On 10 August 2010, the Group purchased 30.06% of the issued share capital of Garigal Asset Management GmbH ("Garigal"), a German asset and property manager, for cash consideration of €1. The Group's German joint venture partner purchased a further 20.04% of Garigal in the same transaction. The investment is expected to result in more effective management of the German portfolio by the transfer of responsibility to a single German-based entity, to increase the range of opportunities for the Group to monetise its stake in the German joint venture, and to provide a platform for extending asset and property management services to third parties in Germany.

As part of the investment, the asset and property management contract for the real estate portfolio held by the German joint venture was transferred to Garigal, which will have sole responsibility for the portfolio once a transitional period to 30 June 2011 has expired. An asset of £0.6 million, which represented the Group's share of the fair value of the estimated future cash flows from this contract, was therefore included in the consideration given for the investment. The recognised amounts of the identifiable assets acquired and liabilities assumed included a liability of £0.1 million, which represented the Group's share of the fair value of the estimated future cash flows from the existing management contract held by Garigal. Goodwill of £0.9 million arose from the excess of the consideration given over the identifiable assets and liabilities acquired.

	Note	10 August 2010 £m
Financial and other assets		**0.1**
Financial and other liabilities		**(0.1)**
Fair value of asset and property management contract held by Garigal		**(0.1)**
Total identifiable assets and liabilities acquired		**(0.1)**
Goodwill	16d	**0.9**
Total consideration		**0.8**
Represented by:		
Cash consideration		**–**
Acquisition costs capitalised		**0.2**
Fair value of asset and property management contract transferred to Garigal		**0.6**
		0.8

The net cash outflow on investment in Garigal and the fair value of receivables acquired were immaterial, and no contingent liabilities were recognised in the transaction. At investment date it was assumed that all contractual cash flows will be collected. None of the goodwill arising within the associate is expected to be deductible for tax purposes.

Garigal did not contribute to the profit of the Group between the date of acquisition and the balance sheet date due to the initial transition costs incurred. If the acquisition had been completed on the first day of the financial year, Garigal would have contributed £0.1 million of profit to the Group. Since Garigal's results are included under the share of profit in associates and joint ventures in the consolidated income statement, the investment had no effect on reported Group revenue for the year.

30 Investment in Euro B-Note Holding limited

On 22 December 2010 the Group purchased an effective 49.9% of the issued share capital of Euro B-Note Holding Limited. The Group's German joint venture partner purchased 50.1% of Euro B-Note Holding Limited in the same transaction. On 24 December 2010 Euro B-Note Holding Limited purchased one of the German joint venture portfolio's subordinated loans with a face value of €18.1 million.

31 Disposal – Manchester Arena Complex Limited Partnership

On 15 June 2010 the Group sold its wholly owned subsidiary, Capital & Regional Manchester Arena (Jersey) Limited, which held the 30% joint venture interest in the Manchester Arena Complex Limited Partnership, the owner of the MEN Arena investment property. The Group's share of net assets at the date of disposal and at 30 December 2009 was as follows:

	Note	**15 June 2010 £m**	30 December 2009 £m
Investment property		**19.7**	19.0
Current assets		**1.0**	0.7
Cash and cash equivalents		**1.1**	1.6
Current liabilities		**(0.6)**	(2.2)
Non-current liabilities		**(15.3)**	(14.3)
	16c	**5.9**	4.8
Loss on disposal	11d	**(0.2)**	
Total cash consideration		**5.7**	
Net inflow arising on disposal:			
Cash consideration		**5.7**	
Cash and cash equivalents disposed of		**(1.1)**	
		4.6	

32 Lease arrangements

The Group as lessee – finance leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments on land and buildings under finance leases as follows:

	Future minimum lease payments **2010 £m**	2009 £m
Within one year	–	0.1
Between one and five years	–	0.2
After five years	–	4.8
	–	5.1
Less future finance charges	–	(4.1)
	–	1.0

	Present value of future minimum lease payments **2010 £m**	2009 £m
After five years	–	1.0
	–	1.0

The finance leases represented the head leases on the Group's leasehold investment and owner-occupied properties, all of which were denominated in sterling. The properties were sold during the year. During the year there were no contingent rents (2009: £nil) and the Group made sublease payments of £nil (2009: £0.1 million).

32 Lease arrangements continued

The Group as lessee – operating leases

At the balance sheet date, the Group's future minimum lease payments and sublease receipts under non-cancellable operating leases were as follows:

	Land and buildings CRPM		Land and buildings SNO!zone		Other operating leases		Total	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Lease payments								
Within one year	**(0.3)**	(0.1)	**(1.7)**	(2.1)	**–**	(0.1)	**(2.0)**	(2.3)
Between one and five years	**(0.5)**	(0.6)	**(7.1)**	(9.5)	**–**	–	**(7.6)**	(10.1)
After five years	**–**	–	**(25.7)**	(41.8)	**–**	–	**(25.7)**	(41.8)
	(0.8)	(0.7)	**(34.5)**	(53.4)	**–**	(0.1)	**(35.3)**	(54.2)
Sublease receipts								
Between one and five years	**0.1**	0.2	**–**	–	**–**	–	**0.1**	0.2
	0.1	0.2	**–**	–	**–**	–	**0.1**	0.2

Operating lease payments are denominated in sterling and have an average remaining lease length of 17 years (2009: 18 years) and rentals are fixed for an average of nine years (2009: ten years). During the year there were no contingent rents (2009: £nil) and the Group incurred lease payments recognised as an expense of £2.3 million (2009: £2.3 million). The Group negotiated a rent concession for SNO!zone Braehead which will reduce the amount payable under the lease in future years. The changes in the terms of the lease represent a significant modification so have been treated as generating a new lease, and as a result a liability of £1.9 million (2009: £2.2 million) representing the unamortised tenant incentives under the old lease was written back during the year.

The Group as lessor

The Group leases out all of its investment properties under operating leases for average lease terms of 12 years (2009: 11 years) to expiry. The most significant leasing arrangements are summarised in the fund portfolio information. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

100% figures	Unexpired average lease term Years	Less than 1 year £m	2–5 years £m	6–10 years £m	11–15 years £m	16–20 years £m	More than 20 years £m	**30 December 2010 Total £m**	30 December 2009 Total £m
The Mall	9.3	87.5	269.1	171.0	69.5	42.7	194.0	**833.8**	1,107.6
The Junction	11.7	29.8	115.5	126.9	65.9	35.8	0.2	**374.1**	472.8
X-Leisure	14.6	39.8	155.0	181.1	122.9	42.2	23.2	**564.2**	669.5
FIX UK*	6.8	0.5	3.3	4.8	0.9	0.9	0.2	**10.6**	11.0
Total associates		157.6	542.9	483.8	259.2	121.6	217.6	**1,782.7**	2,260.9
German portfolio	6.6	37.0	112.4	64.5	24.7	4.2	0.7	**243.5**	276.1
Other joint ventures	15.3	3.9	15.2	17.9	12.6	11.0	2.3	**62.9**	122.1
Total joint ventures		40.9	127.6	82.4	37.3	15.2	3.0	**306.4**	398.2
Wholly owned	11.6	7.7	29.9	35.7	18.7	4.6	0.6	**97.2**	100.5
Total		206.2	700.4	601.9	315.2	141.4	221.2	**2,186.3**	2,759.6

* Comparative figures restated to include FIX UK

There was no contingent rent (2009: £nil) recognised in income from wholly owned properties during the year.

33 Capital commitments

At 30 December 2010 the Group's share of the capital commitments of its associates, joint ventures and wholly owned properties was £2.5 million (2009: £6.5 million). This comprised £1.3 million (2009: £5.9 million) relating to The Mall, £0.5 million (2009: £0.6 million) relating to The Junction and £0.7 million (2009: £0.5 million) relating to other assets.

34 Contingent liabilities

The Group no longer has any guarantee in respect of the MEN Arena joint venture following its sale during the year (2009: £0.1 million). Other than the tax-related contingent liabilities disclosed in note 9e, there were no other contingent liabilities at the end of either the current year or the preceding year.

35 Events after the balance sheet date

Tax payment
On 31 December 2010 the Group made a cash payment on the due date under the agreed payment plan with HMRC of £5.0 million related to the current tax liability recorded at 30 December 2010.

Hedge extension
On 13 January 2011, the Group entered a forward contract to sell €47.0 million on 27 June 2012 at a fixed exchange rate of 1.185, which had the effect of extending the hedging arrangements on its net investment in the German portfolio.

Group debt
On 30 January 2011, the Group repaid £0.5 million of the floating rate loan secured on its Hemel Hempstead property in line with the amortisation schedule of the facility.

Property disposals
On 14 January 2011, The Mall completed on the sale of its Bristol shopping centre for £50.2 million at a net initial yield of 7.0%, compared to its year-end valuation of £50.0 million.

On 15 March 2011, The Junction completed on the sale of its Ocean Retail Park in Portsmouth for £60.9 million at a net initial yield of 5.81%, compared to its year-end valuation of £55.4 million. The proceeds from the disposal were used to repay £31.7 million of the fund's loans.

Property acquisition
On 22 February 2011, the Group completed the purchase of The Waterside Shopping Centre ("Waterside") in Lincoln for cash consideration of £24.8 million, at a 7.68% net initial yield. The acquisition was completed utilising a new four year £13.65 million project facility from Deutsche PostBank, together with existing cash resources.

On 18 March 2011, the Group conditionally exchanged contracts with Karoo Investment Fund II S.C.A SICAV-SIF ("Karoo") to form a 50:50 joint venture by selling 50% of the Group's interest in Waterside ("the Disposal"). As the Group and Karoo have common significant shareholders the formation of the joint venture is conditional upon shareholder approval. A shareholder circular was posted on 8 March 2011 convening a General Meeting to be held on 1 April 2011. The Group acquired the Waterside through an English Limited Partnership consisting of a General Partner and two equal Limited Partners. In order to form the joint venture, the Group has agreed to sell the entire share capital of one of the Limited Partners and 50% of the share capital of the General Partner to Karoo. Under the terms of the Disposal it has been agreed that Karoo will fund approximately half of the total costs and related expenses incurred by the Group in acquiring Waterside. Accordingly, the total amount payable by Karoo will be approximately £6.4 million comprising a purchase price for the shares being sold of approximately £57,500 (assuming completion of the Disposal occurs on 8 April 2011) and, in addition, Karoo will repay £6.35 million of financing provided by the Group to complete the purchase of the Waterside.

X-Leisure
On 28 February 2011, the property valuation of the X-Leisure fund (excluding adjustments for tenant incentives and head leases) was £535.4 million. This gave a unit price of 31.8p, meaning the value of the Group's units excluding interest swap and mark-to-market valuations was £29.3 million compared to £28.4 million at 31 December 2010.

On 18 March 2011, Hermes sold their investments in X-Leisure and X-Leisure Limited to AREA which resulted in amendments to management contracts but has no material impact on the Group.

36 Related party transactions

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

	Interest receivable from related parties		Distributions received from related parties	
Capital & Regional plc and subsidiaries	**Year to 30 December 2010 £m**	Year to 30 December 2009 £m	**Year to 30 December 2010 £m**	Year to 30 December 2009 £m
Associates				
The Mall Limited Partnership	**–**	–	**–**	6.7
The Junction Limited Partnership	**–**	–	**5.6**	–
X-Leisure Limited Partnership	**–**	–	**0.7**	–
	–	–	**6.3**	6.7
Joint ventures				
Xscape Braehead Partnership	**0.5**	0.6	**–**	–
The Auchinlea Partnership	**–**	–	**–**	0.1
X-Leisure Limited	**–**	–	**0.3**	–
German joint venture companies:				
Capital & Regional (Europe LP) Limited	**0.1**	0.1	**1.2**	0.2
Capital & Regional (Europe LP 2) Limited	**0.1**	0.1	**0.1**	–
Capital & Regional (Europe LP 3) Limited	**0.3**	0.3	**1.5**	0.4
Capital & Regional (Europe LP 5) Limited	**–**	–	**0.3**	–
Capital & Regional (Europe LP 6) Limited	**0.1**	0.1	**–**	–
	1.1	1.2	**3.4**	0.7

		Amounts (payable to)/ receivable from related parties	
Capital & Regional plc and subsidiaries	Note	**30 December 2010 £m**	30 December 2009 £m
Associates			
The Mall Limited Partnership		**(0.7)**	(2.4)
The Junction Limited Partnership		**–**	(0.1)
X-Leisure Limited Partnership		**–**	(0.2)
	19	**(0.7)**	(2.7)
Shareholder loans to joint ventures			
Xscape Braehead Partnership		**10.1**	8.6
German joint venture companies:			
Capital & Regional (Europe LP) Limited*		**3.0**	3.1
Capital & Regional (Europe LP 2) Limited*		**1.6**	1.7
Capital & Regional (Europe LP 3) Limited*		**7.5**	7.9
Capital & Regional (Europe LP 5) Limited		**0.7**	0.7
Capital & Regional (Europe LP 6) Limited*		**1.8**	1.8
	14	**24.7**	23.8

* All amounts are transactions with subsidiaries of the Company, with the exception of transactions with the German joint venture companies where the Company holds 5.1% (2009: 5.1%) of the Group's interest

36 Related party transactions continued

Amounts payable to associates are unsecured and do not incur interest and they are payable on demand and settled in cash.

Amounts receivable from joint ventures incur interest at commercial rates which is payable on demand. Principal amounts owed by the Xscape Braehead Partnership are repayable in 2012 and 2013, and principal amounts owed by the German joint venture companies are repayable in 2013. The balances are unsecured and settled in cash.

CRPM	Management fee income/(expense) from related parties		Amounts owed by related parties	
	Year to 30 December 2010 £m	Year to 30 December 2009 £m	**30 December 2010 £m**	30 December 2009 £m
Associates				
The Mall Limited Partnership	**8.9**	9.5	**1.4**	0.7
The Junction Limited Partnership	**1.3**	2.1	**–**	–
X-Leisure Limited Partnership	**0.1**	2.8	**–**	–
The FIX UK Limited Partnership	**0.1**	0.2	**–**	–
	10.4	14.6	**1.4**	0.7
Joint ventures				
German joint venture companies	**0.2**	0.4	**–**	–
X-Leisure Limited	**(0.2)**	–	**0.1**	0.3
Manchester Arena Complex Limited Partnership	**–**	–	**–**	0.3
Xscape Braehead Partnership	**0.2**	0.1	**0.1**	–
	0.2	0.5	**0.2**	0.6

Management fees are payable on demand and the balances are unsecured, do not incur interest and are settled in cash. No performance fees were receivable from or payable to related parties in either the current year or the preceding year.

SNO!zone Limited and SNO!zone Braehead Limited	Rent payable to related parties		Amounts owed by related parties	
	Year to 30 December 2010 £m	Year to 30 December 2009 £m	**30 December 2010 £m**	30 December 2009 £m
Associates				
Xscape Milton Keynes Partnership	**0.7**	0.7	**–**	–
Xscape Castleford Partnership	**0.7**	0.7	**–**	–
	1.4	1.4	**–**	–
Joint ventures				
Xscape Braehead Partnership	**0.3**	0.7	**–**	(2.1)
	0.3	0.7	**–**	(2.1)

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

During 2010 the Group purchased IT equipment and services from Sage plc on normal commercial terms. Paul Stobart is a director of Sage plc.

36 Related party transactions continued

Performance fees

Certain entities in the Group may receive performance fees when investors realise their interests in the underlying funds or joint ventures, either at the end of the life of the fund, on the sale of some or all of the underlying properties, or through another realisation mechanism such as a listing.

CRPM will earn a performance fee if the property level return is positive and is more than 50 basis points above the index when measured from July 2010 to the realisation of the fund, which is due to expire in April 2017. Part of any performance fee earned may be payable to certain key CRPM management and staff as part of their incentive plans. The Mall performance fees will be effective from 21 July 2010 but are subject to final confirmation by the Mall Bond Security Trustee which is expected shortly as disclosed in note 3. The Group will also bear 16.72% of the cost of this performance fee as an investor in The Mall fund.

CRPM will earn a performance fee if the internal rate of return is over 15% when measured from May 2009 to the realisation of the fund, which is due to expire in July 2013. Part of any performance fee earned may be payable to certain key CRPM management and staff as part of their incentive plans. The Group will also bear 13.29% of the cost of this performance fee as an investor in The Junction fund.

X-Leisure Limited will earn a performance fee if the internal rate of return is over 15% when measured from August 2009 to the realisation of the fund, which is due to expire in December 2014. Up to 50% of any performance fee earned may be payable to certain key X-Leisure Limited management and staff as part of their incentive plans. The Group will also bear 11.93% of the cost of this performance fee as an investor in the X-Leisure fund.

Garigal will earn a performance fee if the internal rate of return is over 12% when measured from August 2010 to the realisation of the joint venture, whose current business plan runs to June 2013. Up to 80% of any performance fee earned may be payable to certain key Garigal management and staff as part of their incentive plans. The Group will also bear 49.60% of the cost of this performance fee as an investor in the German joint venture.

Transactions with key personnel

In accordance with IAS 24, key personnel are considered to be the executive and non-executive directors as they have the authority and responsibility for planning, directing and controlling the activities of the Group. Their remuneration in the income statement is as follows:

	Year to 30 December 2010 £m	Year to 30 December 2009 £m
Short term employment benefits (restated)+	**1.3**	1.7
Post employment benefits	**0.1**	0.2
Share-based payments*	**0.5**	0.3
	1.9	2.2

+ The prior year figure has been restated to include amounts paid to the non-executive directors to be consistent with the current year presentation

* Share-based payments relate to amounts awarded under the 2010 LTIP, the COIP and the Matching Share Agreement

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

We have audited the financial statements of Capital & Regional plc for the year ended 30 December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement, the related notes 1 to 36, the Parent Company Balance Sheet and the related notes A to I. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the directors' statement, contained within the Corporate Governance Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Andrew Clark (Senior Statutory Auditor)
for and on behalf of Deloitte LLP Chartered Accountants and Statutory Auditor
London, United Kingdom, 22 March 2011

Company balance sheet

At 30 December 2010

Registered number: 1399411

Prepared in accordance with UK GAAP

	Note	2010 £m	2009 £m
Fixed assets			
Investments	C	**178.0**	191.8
Current assets			
Debtors – amounts falling due within one year	D	**143.3**	127.8
Debtors – amounts falling due after more than one year	D	**14.0**	14.6
Cash and deposits		**5.2**	0.3
		162.5	142.7
Creditors – amounts falling due within one year			
Trade and other creditors	E	**(160.4)**	(122.5)
Bank loans	H	**–**	(0.1)
		(160.4)	(122.6)
Net current assets		**2.1**	20.1
Creditors – amounts falling due after more than one year			
Bank loans	H	**–**	(7.2)
Loan guarantees		**(0.4)**	(0.6)
Corporation tax payable	E	**(10.0)**	(10.0)
		(10.4)	(17.8)
Provisions for liabilities	F	**–**	(1.0)
Net assets		**169.7**	193.1
Capital and reserves			
Called-up share capital	G	**9.9**	9.9
Merger reserve	G	**60.3**	60.3
Special reserve	G	**79.5**	79.5
Capital redemption reserve	G	**4.4**	4.4
Retained earnings	G	**15.6**	39.0
Shareholders' funds		**169.7**	193.1

These financial statements were approved by the Board of directors, authorised for issue and signed on their behalf on 22 March 2011 by:

Charles Staveley
Group Finance Director

Notes to the Company financial statements

For the year ended 30 December 2010

A Accounting policies

Although the Group consolidated financial statements are prepared under IFRS, the Company financial statements for Capital & Regional plc presented in this section are prepared under UK GAAP. The main accounting policies have been applied consistently in the current year and the preceding year.

Investments, amounts owed by subsidiaries and amounts owed by associates and joint ventures are stated at cost less provision for impairment. Where there is an indication that an investment is impaired, an impairment review is carried out by comparing the carrying value of the investment against its recoverable amount, which is the higher of its estimated value in use and fair value. This review involves accounting judgements about the future cash flows from the underlying associates and joint ventures and, in the case of CRPM, estimated asset management fee income less estimated fixed and variable expenses.

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

The Company's related party transactions are described in note 36 to the Group financial statements. The Company had no direct employees during the year (2009: none). Information on the directors' emoluments, share options, long-term incentive schemes and pension contributions is shown in the directors' remuneration report.

B Loss for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The loss for the year attributable to equity shareholders was £23.4 million (2009: loss of £40.8 million).

C Fixed asset investments

	Subsidiaries £m	Joint ventures £m	Other investments £m	**Total £m**
At the start of the year	178.0	13.5	0.3	**191.8**
Disposals	(6.2)	(0.1)	–	**(6.3)**
Impairment of investments	(7.5)	–	–	**(7.5)**
At the end of the year	164.3	13.4	0.3	**178.0**

Note I shows the principal subsidiaries, associates and joint ventures held by the Group and the Company. Other investments are described in note 13b to the Group financial statements.

D Debtors

Amounts falling due within one year	**2010 £m**	2009 £m
Amounts owed by subsidiaries	**141.8**	127.6
Corporation tax recoverable	**1.5**	–
Taxation and social security	**–**	0.2
	143.3	127.8

Amounts falling due in more than one year	**2010 £m**	2009 £m
Amounts owed by joint ventures	**14.0**	14.6
	14.0	14.6

E Creditors

Amounts falling due within one year	2010 £m	2009 £m
Amounts owed to subsidiaries	**154.4**	108.9
Amounts owed to associates	**–**	0.4
Trade payables	**0.1**	–
Current tax payable	**5.0**	8.2
Other creditors	**0.1**	1.5
Accruals and deferred income	**0.8**	0.4
Interest payable	**–**	3.1
	160.4	122.5

Amounts falling due after more than one year	2010 £m	2009 £m
From one to two years	**5.0**	–
From two to five years	**5.0**	17.8
	10.0	17.8

F Provisions

	£m
At the start of the year	**1.0**
Reversal of provision	**(1.0)**
At the end of the year	–

The Company had guaranteed the rent and service charges payable by SNO!zone Limited and SNO!zone Braehead Limited. During the year the underlying SNO!zone Braehead lease was restructured reducing the Company guarantee and the provision was no longer required.

G Share capital and reserves

	Non-distributable				Distributable	
	Share capital £m	Special reserve* £m	Capital redemption reserve £m	Retained earnings (restated)* £m	Merger reserve £m	**Total £m**
At the start of the year	9.9	79.5	4.4	39.0	60.3	**193.1**
Retained profit/(loss) for the year	–	–	–	(23.4)	–	**(23.4)**
At the end of the year	9.9	79.5	4.4	15.6	60.3	**169.7**

* The special reserve arose on the cancellation of the Company's share premium account in 2009. Once consent has been obtained from all of the Company's creditors existing at the date of the cancellation, the special reserve will be transferred to retained earnings and will become distributable. Following this consent the majority of the retained earnings balance of £15.6 million at 30 December 2010 will become distributable

The Company's authorised, issued and fully paid-up share capital is described in note 23 to the Group financial statements. The other reserves are described in note 25 to the Group financial statements. Prior year retained earnings have been reclassified as non-distributable to reflect the restrictions noted above.

H Bank loans

Fair value	2010 £m	2009 £m
Current borrowings	–	0.1
Non-current borrowings	–	7.2
Total borrowings	–	7.3

The Company's borrowings were repaid during the year following the sale of the Group property on which they were secured.

I Principal subsidiaries, associates and joint ventures

	Nature of business	Share of voting rights
Incorporated/registered and operating in Great Britain		
Capital & Regional Earnings Limited	Property management	100%
Capital & Regional Income Limited	Property investment	100%
Capital & Regional Holdings Limited	Property investment and management	100%*
Capital & Regional Property Management Limited	Property management	100%
Capital & Regional Units LLP	Property investment	100%
Morrison Merlin Limited	Property trading	100%*
SNO!zone Limited	Operator of indoor ski slopes	100%
SNO!zone (Braehead) Limited	Operator of indoor ski slopes	100%
The Auchinlea Partnership	Property investment	50%
X-Leisure Limited	Property management	50%
Xscape Braehead Partnership	Property investment	50%
The FIX UK Limited Partnership	Property investment	20%
Incorporated/registered and operating in Germany		
Garigal Asset Management GmbH	Property management	30.06%
Incorporated/registered and operating in Jersey		
Capital & Regional Capital Partner Limited	Property investment	100%
Capital & Regional Hemel Hempstead (Jersey) Limited	Property investment	100%*
Capital & Regional (Europe Holding 5) Limited	Property investment	100%
Capital & Regional (Europe LP) Limited	Property investment	50%*
Capital & Regional (Europe LP 2) Limited	Property investment	50%*
Capital & Regional (Europe LP 3) Limited	Property investment	50%*
Capital & Regional (Europe LP 4) Limited	Property investment	50%*
Capital & Regional (Europe LP 5) Limited	Property investment	50%*
Capital & Regional (Europe LP 6) Limited	Property investment	50%*
Euro B-Note Holding Limited	Finance	49.90%*
The Mall Unit Trust	Property investment	16.72%
The Junction Unit Trust	Property investment	13.29%
The X-Leisure Unit Trust	Property investment	11.93%
Incorporated/registered in Jersey and operating in Great Britain		
Capital & Regional (Jersey) Limited	Property investment	100%
Capital & Regional Overseas Holdings Limited	Property investment	100%

* Held directly by the Company or, in the case of the Europe LPs, part-held directly by the Company and part-held through a subsidiary and in the case of Euro B-Note Holding Limited, part held through a subsidiary and part held through the ESOT

The shares of voting rights are equivalent to the percentages of ordinary shares or units held by the Group. The Mall Unit Trust, The Junction Unit Trust and X-Leisure Unit Trust each invest in Limited Partnerships and the Group is regarded as having significant influence on those partnerships through its membership of the relevant General Partner boards.

To avoid a statement of excessive length, details of investments which are not significant have been omitted. All of the above principal subsidiaries, associates and joint ventures have been consolidated in the Group financial statements. Investments in associates and joint ventures are analysed in notes 16d and 16e to the Group financial statements.

Glossary of terms

CRPM is Capital & Regional Property Management Limited, a subsidiary of Capital & Regional plc, which earns management and performance fees from The Mall, The Junction and certain other associates and joint ventures of the Group. It also owns the Group's 50% share in X-Leisure Limited, which earns management and performance fees from the X-Leisure fund.

Contracted rent is passing rent and the first rent reserved under a lease or unconditional agreement for lease but which is not yet payable by a tenant.

Contribution is net rent less net interest, including unhedged foreign exchange movements.

Capital return is the change in value during the period for properties held at the balance sheet date, after taking account of capital expenditure and exchange translation movements, calculated on a time weighted basis.

Debt is borrowings, excluding unamortised issue costs.

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

EPRA net assets per share include the dilutive effect of share-based payments but ignore the fair value of derivatives, any deferred tax provisions on unrealised gains and capital allowances, any adjustment to the fair value of borrowings net of tax and any surplus on the fair value of trading properties.

EPRA triple net assets per share include the dilutive effect of share-based payments and adjust all items to market value, including trading properties and fixed rate debt.

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

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

Garigal is Garigal Asset Management GmbH, an associate of the Group, which earns management and performance fees from the German joint venture.

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

Interest rate cover (ICR) is the ratio of either (i) recurring profit (before interest, tax, depreciation and amortisation); or (ii) net rental income to the interest charge.

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

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

Loan to value (LTV) is the ratio of debt excluding fair value adjustments for debt and derivatives, to the fair value of properties (excluding adjustments for tenant incentives and head leases).

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

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

Net debt to property value is debt less cash and cash equivalents divided by the property value (including adjustments tenant incentives and head leases)

Net initial yield (NIY) is the annualised net rent generated by the portfolio expressed as a percentage of the portfolio valuation, excluding development properties, which is in line with EPRA's best practice recommendations.

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

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

Nominal equivalent yield is a weighted average of the net initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received, assuming rent received annually in arrears on gross values including the prospective purchaser's costs.

Passing rent is gross rent currently payable by tenants including car park profit but excluding income from non-trading administrations and any assumed uplift from outstanding rent reviews.

Property under management (PUM) is the valuation of properties for which CRPM, X-Leisure Limited or Garigal is the asset manager.

Recurring pre-tax profit is the total of Contribution, the Group's share of management fees less fixed management expenses earned by CRPM, X-Leisure Limited and Garigal, the profit from SNO!zone and any central costs and interest.

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

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

Reversionary yield is the anticipated yield to which the net initial yield will rise once the rent reaches the ERV.

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

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

Temporary lettings are those lettings for less than one year.

Topped-up net initial yield is the net initial yield adjusted for the expiration of rent-free periods or other unexpired lease incentives.

Total return is the Group's total recognised income or expense for the year as set out in the consolidated statement of comprehensive income expressed as a percentage of opening equity shareholders' funds.

Total shareholder return (TSR) is a performance measure of the Group's share price over time. It is calculated as the share price movement from the beginning of the period to the end of the period plus dividends paid, divided by share price at the beginning of the period

Vacancy rate is the ERV of vacant properties expressed as a percentage of the total ERV of the portfolio, excluding development properties, in line with EPRA's best practice recommendations.

Variable overhead includes discretionary bonuses and the costs of awards to directors and employees made under the 2008 LTIP, Matching Share Agreement, COIP and SAYE Scheme, which are spread over the performance period.

Five-year review

For the period 31 December 2005 to 30 December 2010

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Balance sheet					
Property assets	**80.8**	94.4	98.9	790.0	621.8
Other non-current assets	**27.1**	26.3	31.7	9.0	1.2
Intangible assets	**1.9**	2.6	4.2	12.2	12.2
Investment in joint ventures	**25.7**	30.3	34.4	12.0	67.6
Investment in associates	**110.8**	76.4	182.3	599.4	685.4
Cash at bank	**25.7**	17.5	4.1	37.1	35.5
Other current liabilities	**(10.2)**	(25.7)	(72.9)	(99.3)	(5.9)
Bank loans greater than one year	**(68.8)**	(78.6)	(93.8)	(622.4)	(456.8)
Convertible Unsecured Loan Stock	**–**	–	–	–	(1.3)
Other non-current liabilities	**(18.5)**	(13.4)	(2.8)	(35.0)	(46.6)
Net assets	**174.5**	129.8	186.1	703.0	913.1
Financed by					
Called up share capital	**9.9**	9.9	7.1	7.1	7.2
Share premium account	**–**	–	220.5	219.7	219.5
Revaluation reserve	**–**	–	–	2.4	2.7
Other reserves	**147.9**	148.3	8.5	6.6	7.0
Retained earnings/(loss)	**16.7**	(28.4)	(50.0)	467.2	676.7
Capital employed	**174.5**	129.8	186.1	703.0	913.1
Return on equity					
Return on equity (%)	**33.9%**	(64.3)%	(71.5)%	(18.1)%	31.6%
Increase/(decrease) in net assets per share + dividend (%)	**35.1%**	(72.3)%	(62.2)%	(14.2)%	30.8%
Total shareholder return	**(2.2)%**	(24.7)%	(77.4)%	(73.0)%	81.0%
Period end share price (pence)	**33p**	34p	45p	392p	1542p
Total return					
Total comprehensive income/(expense)	**44.0**	(119.7)	(502.7)	(165.1)	223.9
Net assets per share (pence)					
– Basic net assets per share (restated)*	**50p**	37p	130p	491p	626p
– EPRA triple net assets per share (restated)*	**50p**	37p	133p	499p	632p
– EPRA net assets per share (restated)*	**57p**	47p	174p	501p	628p
EPRA triple net assets per share growth (%) (restated)*	**35.1%**	(72.3)%	(73.4)%	(21.1)%	28.9%
Gearing (%)	**40.4%**	61.9%	60.5%	88.0%	50.0%
Gearing (%) on a see-through basis	**305.0%**	508.7%	449.2%	190.0%	125.0%
Income statement					
Group revenue	**30.7**	37.8	65.4	34.0	132.1
Gross profit	**20.3**	21.8	23.7	14.9	116.6
Profit/(loss) on ordinary activities before financing	**52.6**	(105.1)	(478.5)	(131.0)	274.5
Net interest payable	**(6.2)**	(8.3)	(37.8)	(36.0)	(23.6)
Profit/(loss) on ordinary activities before tax	**46.4**	(113.4)	(516.3)	(167.0)	250.9
Tax (charge)/credit	**(2.0)**	(6.3)	14.1	0.2	(28.6)
Profit/(loss) after tax	**44.4**	(119.7)	(502.2)	(166.8)	222.3
Recurring pre-tax profit	**14.9**	17.5	27.6	32.7	32.3
Fully taxed recurring dividend cover (x)	**–**	–	5.6	1.2	1.2
Interest cover (x)	**3.0**	2.8	1.2	1.2	2.1
Earnings per share (pence)					
– Basic (restated)*	**13p**	(59)p	(355)p	(117)p	157p
– Diluted (restated)*	**13p**	(59)p	(355)p	(117)p	154p
– EPRA (restated)*	**4p**	1p	(39)p	19p	23p
Dividends per share	**–**	–	5p	27p	26p
Dividend cover (x)	**–**	–	–	–	1.8

* Historic figures are not amended for subsequent changes of accounting policies, but these items have been restated from the previously published figures to reflect the impact of the open offer element of the Group's capital raising in 2009

EPRA performance measures

At 30 December 2010

	2010	2009
EPRA earnings (£m)	**12.4**	1.4
EPRA earnings per share	**4p**	1p
EPRA net assets (£m)	**199.4**	162.8
EPRA net assets per share	**57p**	47p
EPRA triple net assets (£m)	**173.6**	128.2
EPRA triple net assets per share	**50p**	37p
EPRA net initial yield	**6.9%**	7.3%
EPRA topped-up net initial yield	**7.0%**	7.4%
EPRA vacancy rate (UK portfolio only)	**4.6%**	5.6%

Reconciliation of EPRA net initial yield and EPRA topped-up net initial yield

	2010 £m	2009 £m
Investment property – wholly owned	**9.8**	10.0
Investment property – share of joint ventures and associates	**614.6**	679.4
Trading property	**72.0**	71.9
Less developments	**(6.7)**	(7.1)
Completed property portfolio	**689.7**	754.2
Allowance for capital costs	**11.8**	11.2
Allowance for estimated purchasers' costs	**39.1**	42.6
Grossed up completed property portfolio valuation	**740.6**	808.0
Annualised cash passing rental income	**55.0**	63.8
Property outgoings	**(4.2)**	(4.9)
Annualised net rents	**50.8**	58.9
Add: notional rent expiration of rent free periods or other lease incentives	**1.2**	0.9
Topped up annualised rent	**52.0**	59.8
EPRA net initial yield	**6.9%**	7.3%
EPRA topped-up net initial yield	**7.0%**	7.4%

4: Other information

Property under management information

At 30 December 2010

Property under management	**30 December 2010 £m**	30 December 2009 £m	30 December 2008 £m	30 December 2007 £m	30 December 2006 £m
Wholly owned	**82**	84	88	775	606
Associates	**2,132**	2,408	3,147	5,186	5,522
Joint ventures	**547**	648	750	174	329
Other property	**71**	–	–	–	–
Total	**2,832**	3,140	3,985	6,135	6,457

Figures exclude adjustments to property valuations for tenant incentives and head leases treated as finance leases. Trading properties are included at the lower of cost and net realisable value.

Other property represents the Ilford shopping centre, which was sold by The Mall in June 2010 but which was still managed by CRPM on a short-term contract with the new owners through to 31 January 2011. The property was not valued at 30 December 2010 so is shown at its sale price.

Covenant information

At 30 December 2010

	See-through borrowings £m	Covenant	**30 December 2010**	Future changes
Core revolving credit facility				
Asset cover	–	Greater than 200%	**n/a**	
Gearing	–	Less than 200%	**4%**	
ICR	–	Greater than 150%	**876%**	
The Great Northern facility				
LTV	63.6	100%	**88%**	From 31 December 2012 reducing in stages to 80% by 30 June 2013
ICR	–	Greater than 135%	**157%**	
The Hemel Hempstead facility				
LTV	6.9	75%	**n/a**	LTV holiday until February 2011
ICR	–	Greater than 150%	**439%**	
The Mall				
LTV	138.4	83%	**n/a**	Effective from December 2011 and then reducing in stages to 65% by December 2014
ICR	–	Greater than 130%	**161%**	
The Junction				
LTV	38.4	80%	**60%**	From 1 October 2011 reducing in stages to 65% by 1 October 2012
ICR	–	Greater than 130%	**156%**	Until 1 July 2012 and then 135%
Germany				
LTV				
Portfolio 1	17.2	80%	**63%–74%**	From 1 January 2011 reducing to 75%
Portfolio 2	30.2	87%–93%	**78%**	
Portfolio 3	47.9	n/a	**n/a**	
Portfolio 4	69.9	85%	**81%**	
Portfolio 5	20.4	81%	**80%**	
Portfolio 6	15.6	n/a	**n/a**	
ICR				
Portfolio 1	–	Greater than 150%	**180%–359%**	
Portfolio 2	–	Greater than 150%	**170%**	
Portfolio 3	–	Greater than 160%	**220%**	
Portfolio 4	–	Greater than 125%	**146%**	
Portfolio 5	–	Greater than 120%	**177%**	
Portfolio 6	–	Greater than 140%	**151%–181%**	
X-Leisure				
LTV (central facility)	35.6	90%	**56%**	From 1 January 2011, reduced to 85% and then tiered decreases to 65% from 1 July 2013
ICR	–	Greater than 130%	**177%**	Until March 2012 and then tiered increases to 150% at 1 April 2013
FIX UK				
No covenant	2.2			
LTV				
Senior A	19.9	80%	**n/a**	LTV holiday until September 2011 and then 80% reducing to 75% from July 2012
Senior B	3.2	90%	**n/a**	LTV holiday until September 2011 and then 90% reducing to 85% from July 2012
ICR				
Senior A	–	Greater than 120%	**144%**	Until 22 January 2012 and then 130%
Senior B	–	Greater than 100%	**123%**	Until 22 January 2012 and then 110%
Braehead				
LTV	22.8	90%	**n/a**	LTV holiday until 31 March 2012 then 90% and reducing to 80% from 31 March 2013
ICR	–	Greater than 120%	**189%**	
	532.2			

Fund portfolio information (100% figures)

At 30 December 2010

	The Mall	The Junction	X-Leisure	German Portfolio
Physical data				
Number of properties	12	9	16	48
Number of lettable units	1,540	118	311	207
Lettable space (sq feet – '000s)	5,580	2,122	3,071	5,008
Valuation data				
Properties at independent valuation (£m)	1,128	476	528	496
Adjustments for head leases and tenant incentives (£m)	61	(17)	(7)	–
Properties as shown in the financial statements (£m)	1,189	459	521	496
Revaluation in the year (£m)	106	23	68	–
Initial yield	6.98%	5.77%	7.02%	6.69%
Equivalent yield	7.81%	6.82%	7.84%	n/a
Geared return	43.20%	14.81%	45.98%	13.70%
Property level return	18.88%	12.97%	22.09%	5.69%
IPD benchmark return	16.90%	16.30%	18.40%	n/a
Reversionary	17.0%	15.1%	6.6%	n/a
Loan to value ratio	73.4%	60.2%	56.5%	81.8%
Net debt to value ratio	60.1%	57.1%	52.7%	76.9%
Lease length (years)				
Weighted average lease length to break	9.33	11.68	14.55	6.55
Weighted average lease length to expiry	9.54	12.04	15.82	6.55
Passing rent (£m) of leases expiring in:				
2011	7.80	0.05	0.63	0.70
2012	5.28	0.04	0.41	2.40
2013-2015	23.25	3.18	1.23	15.4
ERV (£m) of leases expiring in:				
2011	10.88	0.89	0.82	n/a
2012	5.70	0.41	0.45	n/a
2013-2015	24.58	3.30	1.43	n/a
Passing rent (£m) subject to review in:				
2011	18.99	2.94	19.52	n/a
2012	8.22	2.68	4.44	n/a
2013-2015	19.49	21.90	15.01	n/a
ERV (£m) of passing rent subject to review in:				
2011	17.18	2.94	20.88	n/a
2012	7.53	2.67	4.49	n/a
2013-2015	20.32	21.92	15.43	n/a
Rental Data				
Contracted rent at year end (£m)	100.18	30.78	41.28	n/a
Passing rent at year end (£m)	94.99	28.82	40.69	37.36
ERV at year end (£m per annum)	111.15	33.16	43.38	n/a
Rental increase (ERV)%	(4.97)%	(5.18)%	0.02%	n/a
Vacancy rate (%)	4.25%	2.72%	4.67%	3.30%
Like-for-like net rental income under UK GAAP(100%)				
Current year net rental income (£m)				
Properties owned throughout 2009/2010	79.5	27.1	35.5	31.1
Disposals	9.8	4.0	2.4	0.2
Net rental income	**89.3**	**31.1**	**37.9**	**31.3**
Prior year net rental income (£m)				
Properties owned throughout 2009/2010	75.3	26.5	34.0	32.8
Disposals	33.3	14.2	6.6	0.7
Net rental income	**108.6**	**40.7**	**40.6**	**33.5**
Other Data				
Unit Price (£1.00 at inception)	£0.4100	£0.3053	£0.3087	n/a
Group share	16.72%	13.29%	11.93%	49.60%

Property information

At 30 December 2010

The Mall properties

Property	Description	Size Retail (sq feet)	Car park spaces	Principal occupiers	Units
Valued at £125m plus					
The Mall, Luton	Leasehold covered shopping centre on two floors, offices extending to over 65,000 sq ft	906,000	2,300	Debenhams, Boots, Primark, Next, Top Shop and Top Man, Marks & Spencer, Wilkinsons, River Island, Argos, TK Maxx	163
The Mall, Wood Green	Freehold, partially open shopping centre, on two floors with nearly 40,000 sq ft of offices	550,000	1,500	Primark, Cineworld, TK Maxx, Wilkinson, Peacocks, H&M, HMV, Boots, Argos, WH Smith, New Look	158
Valued at £75m to £125m					
The Mall, Blackburn	Leasehold partially covered shopping centre on three floors	600,000	1,304	Primark, Debenhams, Next, H&M, New Look, Peacocks, JD Sports, Tesco, Boots, Argos	141
The Mall, Maidstone	Freehold covered shopping centre on three floors with offices extending to 40,000 sq ft	500,000	1,050	Boots, BHS, TJ Hughes, Wilkinson, New Look, Sportsworld	122
The Mall, Middlesbrough	Freehold single level covered shopping centre with offices extending to over 50,000 sq ft	430,000	550	Boots, BHS, WH Smith, Top Shop, New Look, H&M, Barclays	95
The Mall, Norwich	Freehold covered shopping centre on six floors	375,000	800	Argos, Boots, TK Maxx, Mothercare, New Look, Vue Cinemas	132
The Mall, Sutton Coldfield	Freehold partially open shopping centre on a single level with offices extending to approximately 30,000 sq ft	545,000	960	House of Fraser, BHS, Marks & Spencer, H&M, Boots, Argos, WH Smith	132
The Mall, Camberley	Part leasehold covered shopping centre on one floor	390,000	1,040	Argos, Boots, Sainsbury's, River Island, House of Fraser, Primark	188
The Mall, Walthamstow	Freehold covered shopping centre on two floors	260,000	870	Asda, BHS, Boots, Dixons, HMV, Top Shop, Top Man, River Island	72
Valued at £75m or less					
The Mall, Barnsley	Leasehold covered shopping centre on two floors	180,000	495	TK Maxx, Wilkinson, Next, Primark, Iceland	49
The Mall, Bristol*	Leasehold covered shopping centre on three floors	332,000	1,000	TK Maxx, Boots, Argos, WH Smith, Waterstones	165
The Mall, Uxbridge	Leasehold single level covered shopping centre with 40,000 sq ft of offices	365,000	1,150	Marks & Spencer, Tesco, TK Maxx, Peacocks, Wilkinsons, Argos, Iceland	123

*Sold since the year end

The Junction properties

Property	Description	Size (sq feet)	Car park spaces	Principal occupiers	Units
Valued at above £100m					
The Junction Thurrock Shopping Park, Essex	Open A1 non-food & leisure retail park	554,000	2,398	Best Buy, Decathlon, M&S Outlet, Asda Living, TK Maxx, Furniture Village	32
Valued at £50m to £100m					
The Junction Imperial Park, Bristol	Mixed bulky and open A1 non-food retail warehouse park	339,000	1,200	B&Q, Tesco Home Plus, Next, DW Sports, Argos	21
The Junction South Aylesford Retail Park, Maidstone	Bulky retail warehouse park	167,000	551	Homebase, Comet, BHS, Halfords, Currys	9
The Junction Morfa Shopping Park, Swansea	Mixed bulky and open A1 non-food retail warehouse park, adjacent to a Morrisons supermarket	339,000	1,042	B&Q, TK Maxx, Next, New Look, Sportsworld	18
The Junction Telford Forge Shopping Park, Telford	Open A1 non-food retail warehouse park	313,000	1,343	Next, Tesco Home Plus, Arcadia, TK Maxx, Boots	19
The Junction Ocean Retail Park, Portsmouth*	Bulky retail warehouse park	170,000	705	Homebase, Currys, Halfords, Toys R Us	9
Valued at below £50m					
Broadwell Industrial Estate, Oldbury	Mixed use development site with consent for bulky and open A1 non-food retail and leisure	–	n/a	–	–
The Junction Abbotsinch Retail Park, Paisley	Bulky retail warehouse park	185,000	694	B&Q, DFS, Comet	6
Renfrew Retail Park, Renfrewshire	Mixed bulky retail warehouse and industrial scheme	57,000	n/a	Pets at Home	4

*Sold since the year end

German properties

Property	Description	Size (sq m)	Principal occupiers	JV share
Valued at €50 million to €100 million				
Dortmund	Retail park	33,800	Real	100%
Lübeck	Retail park	29,100	Coop/Plaza	100%
Valued at €20 million to €50 million				
Bremen Haferwende	Logistics	54,400	Metro	100%
Cottbus	Retail park	29,900	Praktiker & Roller	100%
Tönisvorst	Retail park	20,600	Real	100%
Hameln	Retail park	16,800	Kaufland	95%
Moerfelden	Retail park	12,200	Rewe	100%
Trier – Kenn	Hypermarket	11,600	Real	100%

Property information continued

At 30 December 2010

German properties continued

Property	Description	Size (sq m)	Principal occupiers	JV share
Valued at €10 million to €20 million				
Brühl	Hypermarket	17,500	Real	100%
Sinzheim	Hypermarket	16,500	Real	100%
Ingelheim	Hypermarket	10,200	Real	100%
Koln Gremberg	Hypermarket	8,300	Real	100%
Herne	Hypermarket	7,400	Rewe & Toom	100%
Bochum Langendreer	Hypermarket	6,400	Kaufland	89%
Rangsdorf	Furniture store	18,500	Roller	100%
Lauchhammer	Retail park	17,700	Marktkauf	95%
Oschersleben	Retail park	10,500	Marktkauf & Toom	95%
Marl	Retail park	8,800	Kaufland	100%
Krefeld	DIY	11,700	Praktiker	100%
Stadthagen	DIY	10,900	Hagebau	100%
Balingen	DIY	7,500	Toom	100%
Valued at less than €10 million				
Elchingen	Hypermarket	7,400	Real	100%
Sobernheim	Supermarket	7,400	Real	95%
Leverkusen	Supermarket	6,600	Edeka & Total	100%
Kreuztal	Supermarket	6,400	–	94%
Heide	Supermarket	4,600	Aldi	100%
Magdeburg	Supermarket	3,000	Edeka	100%
Kirchheimbolanden	Supermarket	2,500	HIT Handelsgruppe	100%
Bremen – Buntentorsteinweg	Supermarket	2,400	Rewe	100%
Bremen – Mahndorfer	Supermarket	1,200	Metro	100%
Taufkirchen	Supermarket & Retail	5,000	Rewe & AWG	95%
Velten	Supermarket & Leisure	3,100	Rewe & Karin Raschke	100%
Herford	Supermarket & Leisure	2,400	Senyurt & Drei Groschen Spiel	100%
Bonn	Logistics	5,800	Kaufland	100%
Hosbach	DIY	14,700	Globus Fachmarkte	100%
Aachen	DIY	2,800	Praktiker	100%
Wesel	Retail	3,100	Massa	100%
Langburkersdorf	Retail	5,100	–	100%
Hamburg – Wandesbek	Retail	3,000	Massa	100%
Jessen	Retail	1,500	TIP Discount Verwaltungs	100%
Senftenberg	Retail	1,100	TIP Discount Verwaltungs	100%
Bochum – Wattenscheid	Retail	10,000	Gota Tapeten	100%
Kirchweyhe	Retail	1,900	Torsten Leschke - Fitnessanlage	100%
Philippsthal	Retail	900	BF Tec	100%
Duisburg	Retail & residential units	2,600	Schlecker	100%
Hochdahl	Retail & residential units	800	–	100%
Koln Berliner	Retail & residential units	500	Schlecker	100%
Kirchheim	Petrol station	2,400	Real	100%

X-Leisure properties

Property	Description	Size (sq feet)	Principal occupiers	Units
Valued at above £50m				
Brighton Marina, Brighton	Retail, leisure and residential property, with a working harbour and yacht moorings	335,000	Cine UK, Bowlplex, David Lloyd	75
Xscape Milton Keynes	Leisure and retail property anchored by one of the UK's largest indoor real snow slopes	424,000	SNO!zone, Cineworld, Virgin Active, Spirit Group, Ellis Brigham, Luminar Leisure	39
Valued at £25m to £50m				
Cambridge Leisure Park, Cambridge	Leisure property with a multiplex cinema, health club, bowling, hotel, bars and restaurants	149,000	Cine UK, LA Fitness, Ten Pin	19
Xscape Castleford	Leisure and retail property anchored by one of the UK's largest indoor real snow slopes	363,000	SNO!zone, Cine UK, Bowlplex, Ellis Brigham	43
Fountain Park, Edinburgh	Leisure property with a multiplex cinema, bowling, health and fitness, and bars and restaurants	238,000	Cine UK, Tenpin, Virgin Active, Mecca Bingo, Genting Casinos	12
Cardigan Fields, Leeds	Leisure property with a cinema, bowling, health club and restaurants plus two industrial units	216,000	Vue, Hollywood Bowl, Virgin Active, Spirit Group	14
Parrs Wood, Manchester	Leisure property with restaurants, health and fitness, bowling, multiplex cinema, bingo, children's entertainment and a hotel	232,000	Cine UK, Virgin Active, Ten Pin	11
Riverside, Norwich	Leisure property with bars, restaurants, nightclubs, multiplex cinema and bowling	210,000	Odeon Cinema, Hollywood Bowl, Luminar Leisure	15
Tower Park, Poole	Leisure property with a multiplex cinema, bowling, bingo, health club, water park and family restaurants	199,000	Empire, Bowlplex, LA Fitness	17
Valued at below £25m				
Queens Links, Aberdeen	Leisure property with a cinema and restaurants	129,000	Cine UK, Gala	10
Eureka Park, Ashford	Leisure property with a multiplex cinema, family restaurants, health & fitness, nightclub and hotel	120,000	Cine UK, Travelodge, Bannatyne	9
Great North Leisure Park, North Finchley, London	Leisure property with a multiplex cinema, bowling, restaurants and a local authority swimming pool	88,000	Vue Cinema, Hollywood Bowl	7
West India Quay, Docklands London (50%)	Leisure property with bars, restaurants, multiplex cinema, health and fitness centres and the Museum of Docklands	72,000	Cine UK, LA Fitness, Tattersall Castle Group	17
Lockmeadow, Maidstone	Leisure property with a multiplex cinema, health and fitness, family restaurants, nightclubs and bars, as well as the 700 year old Maidstone market	139,000	Odeon Cinema, Luminar Leisure, David Lloyd	9
Boldon Leisure Park, Tyneside	Leisure property with a cinema and restaurants	57,000	Cine UK	4
Bentley Bridge, Wolverhampton	Leisure property with a multiplex cinema, restaurants and canal-side pub	99,000	Cine UK, AMF Bowling	10

Property information continued

At 30 December 2010

Other properties

Property	Description	Size (sq feet)	Principal occupiers	Units
Valued at above £50m				
Great Northern Warehouse, Manchester	Freehold leisure property with multiplex cinema, nightclub and bars, health and fitness, restaurants and shops	399,000	AMC Cinema, Virgin Active, London Clubs International	46
Xscape Braehead (50%)	Freehold covered leisure and retail property anchored by one of the UK's largest indoor real snow slopes	374,000	SNO!zone, Odeon Cinema, Bowlplex, Ellis Brigham	37
Valued at below £50m				
Leisure World, Hemel Hempstead	Freehold covered leisure property with cinema, bowling alley, ice rink, waterworld, nightclubs and catering	156,000	Luminar Leisure Odeon Cinema	11
Waterside Shopping Centre, Lincoln*	Freehold covered shopping centre on three floors	120,000	Primark, New Look, Top Shop, Superdrug, Clinton Cards	46

* Purchased since the year end

4: Other information

Explanatory notes of principal changes to the Company's articles of association

1. The company's objects and memorandum

1.1 The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

1.2 The Companies Act 2006 (the "2006 Act") significantly reduces the constitutional significance of a company's memorandum. The 2006 Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the 2006 Act, the objects clause, authorised share capital and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in the company's articles but the company can remove these provisions by special resolution.

1.3 Further, the 2006 Act states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason, the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, are treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 12(a) confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of members.

2. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions in the 2006 Act are in the main removed in the New Articles and provisions in the Current Articles which are inconsistent with the 2006 Act have been removed or amended.

3. Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed in the New Articles as the concept of extraordinary resolutions has not been retained under the 2006 Act and the remainder of the provision is reflected in full in the 2006 Act.

4. Authorised share capital and unissued shares

The 2006 Act abolishes the requirement for a company to have an authorised share capital and, therefore, all reference to authorised share capital in the Current Articles have been removed. Directors will still be limited as to the number of shares they can allot because allotment authority continues to be required under the 2006 Act, save in respect of employee share schemes.

5. Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The 2006 Act enables directors to determine the terms and manner of redemption of redeemable shares provided they are so authorised by the articles or by a resolution of the company. Such an authorisation is now included in the New Articles. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

6. Authority to purchase own shares, consolidate and sub-divide shares and reduce share capital

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the 2006 Act a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed in the New Articles.

7. Variation of class rights

The Current Articles contain provision regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the 2006 Act. The relevant provisions have therefore been amended in the New Articles to reflect the 2006 Act.

8. Suspension of registration of share transfers

The Current Articles permit the directors to suspend the registration of transfers. Under the 2006 Act, share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

Explanatory notes of principal changes to the Company's articles of association continued

9. Notice of general meetings
The Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") amend the 2006 Act to require the company to give 21 clear days' notice of general meetings unless the company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. Annual general meetings must be held on 21 clear days' notice. The New Articles amend the provisions of the Current Articles to be consistent with the new requirements.

10. Quorum at general meetings
The Current Articles require three members to be present in person or by proxy for a general meeting to be quorate. The quorum provisions for general meetings under the New Articles have been updated to reflect the 2006 Act, which provides for a quorum of two "qualifying persons", including proxies and corporate representatives, but contains provisions that only one proxy or corporate representative of a member can count to the quorum where multiple proxies or corporate representatives have been appointed by that member. The New Articles also provide that if a quorum is not present within 15 minutes of the time stated for a general meeting, the meeting shall be dissolved.

11. Adjournments for lack of quorum
Under the 2006 Act as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The New Articles change the provisions of the Current Articles to reflect this requirement.

12. Voting by proxies on a show of hands
The Shareholders' Rights Regulations have amended the 2006 Act so that it provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles remove provisions in the Current Articles dealing with proxy voting on the basis that these are dealt with in the 2006 Act and contain a provision clarifying how the provision of the 2006 Act giving a proxy a second vote on a show of hands should apply to discretionary authorities.

13. Voting by corporate representatives
The Shareholders' Rights Regulations have amended the 2006 Act in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles remove provisions in the Current Articles dealing with voting by corporate representatives on the basis that these are dealt with in the 2006 Act.

14. Chairman's casting vote
The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the 2006 Act.

15. Voting record date
Under the 2006 Act as amended by the Shareholders' Rights Regulations, the Company must determine the right of members to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, not taking account of days which are not working days. The New Articles remove provisions in the Current Articles dealing with the voting record date on the basis that this is dealt with in the 2006 Act.

16. Time limit for receipt of proxies
The time limits for the appointment or termination of a proxy appointment have been altered by the 2006 Act so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. The New Articles reflect the provision of the 2006 Act.

17. Change of name
Under the Companies Act 1985, a company could only change its name by special resolution. Under the 2006 Act a company is able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name.

18. Non-executive directors' fees
Guidelines from the ABI require that a company's articles of association contain a monetary cap on the aggregate fees payable to non-executive directors. The New Articles provide that the Company's non-executive directors shall not receive, in aggregate more than £450,000 in any financial year. Shareholders will need to approve any increase in this figure by the passing of an ordinary resolution at a general meeting of the Company.

As explained in the explanatory notes on the resolution to be proposed at the AGM, the limit of £150,000 per annum, which was approved by shareholders in 1997, (such amount being increased in accordance with increases in the Retail Price Index from the date of the adoption of the Current Articles) contained in the Current Articles is insufficient.

19. Notice of board meetings
Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while his is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad.

20. Borrowing powers
No changes are being made in the New Articles to the borrowing powers under the Current Articles.

21. Use of seals
21.1 Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad. Under the 2006 Act, such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the New Articles.

21.2 The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

22. Records to be kept
The provision in the Current Articles requiring the board to keep accounting records has been removed as this requirement is contained in the 2006 Act.

23. Notices and communications
Provisions of the 2006 Act enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

24. Distribution of assets otherwise than in cash
The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

25. General
Generally, the opportunity has been taken to bring clearer and more modern language into the New Articles and in some areas to conform the language of the New Articles to that used in the model articles for public companies produced by the Department for Business, Innovation and Skills.

Advisers and corporate information

Auditors
Deloitte LLP
2 New Street Square
London EC4A 3BZ

Investment bankers/brokers
JP Morgan Cazenove
10 Aldermanbury
London EC2V 7RF

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Principal legal advisers
Olswang LLP
90 High Holborn
London WC1V 6XX

Principal lending bankers
Bank of Scotland Plc part of Lloyds Banking Group
25 Gresham Street
London EC2V 7HN

Registered office
52 Grosvenor Gardens
London SW1W 0AU
Telephone: +44 (0)20 7932 8000
Facsimile: +44 (0)20 7802 5600
www.capreg.com

Principal valuers
CB Richard Ellis Limited
Kingsley House
Wimpole Street
London W1G 0RE

Cushman & Wakefield LLP
43/45 Portman Square
London W1A 3BG

DTZ Debenham Tie Leung Limited
1 Curzon Street
London W1A 5PZ

Jones Lang LaSalle Limited
22 Hanover Square
London W1S 1JA

King Sturge LLP
7 Stratford Place
London WC1C 1ST

Registered number
1399411

Shareholder information

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0845 607 6838

2011 financial calendar

Annual General Meeting	June 2011
2011 interim results	August 2011
2011 annual results	March 2012

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Printed in England by Cousin

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Capital & Regional plc
52 Grosvenor Gardens
London SW1W 0AU
Telephone: +44 (0)20 7932 8000
Facsimile: +44 (0)20 7802 5600

www.capreg.com