Annual Report 2007

Capital&
Regional

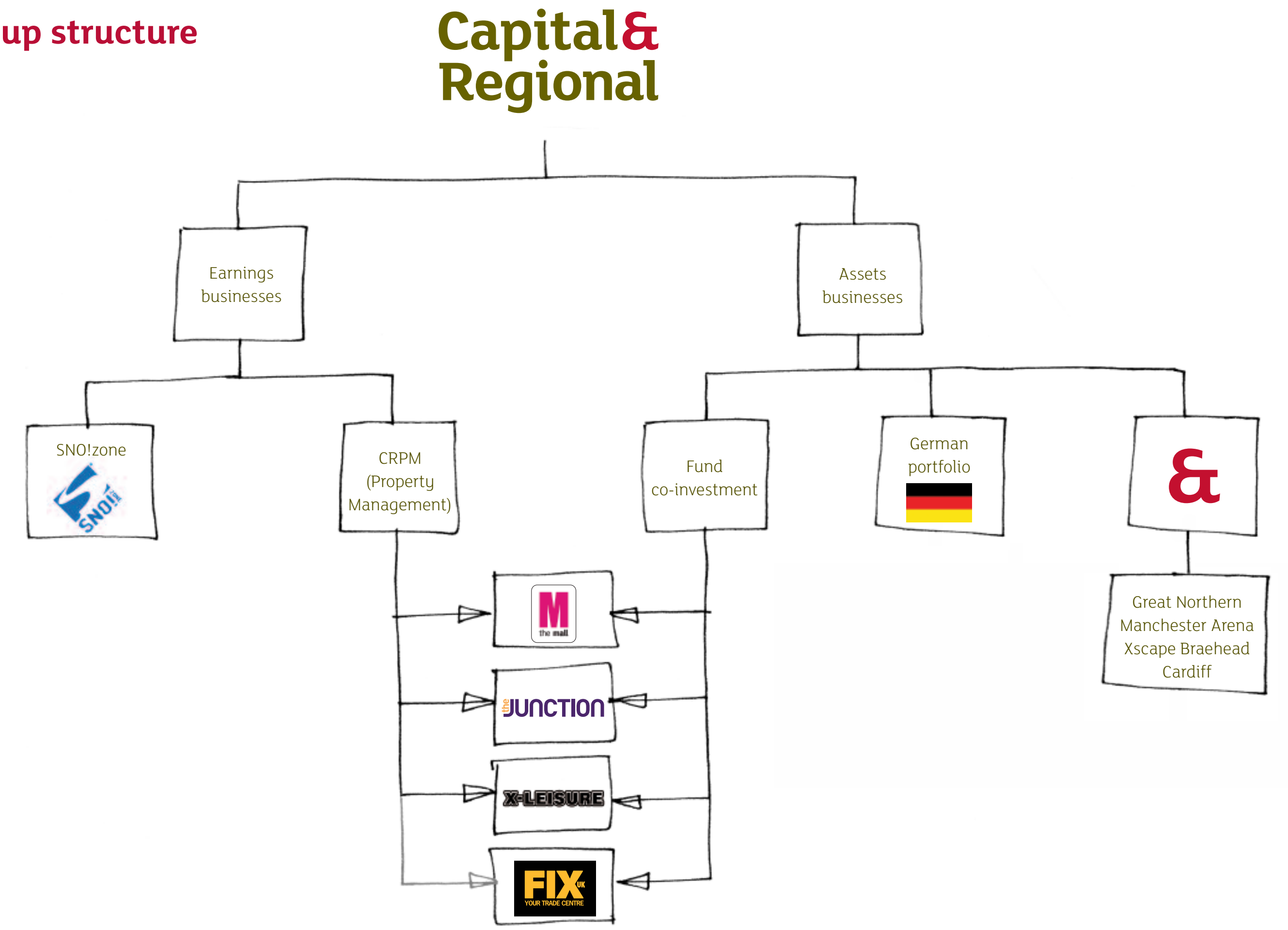
Capital & Regional... our philosophy

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

...what we do

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

Group structure



Post FIX Fund formation in March 2008.

Business Review

Strategy and objectives

C&R is a co-investing asset manager with teams specialising in retail and leisure property. We have three well established funds in which we co-invest and, since the year end, our FIX portfolio became a fund in which C&R now holds 20%.

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

In addition to the value of our property assets, we believe that there is significant value in:

- Our experienced management teams, which have strength in depth, specialisation and experience.
- Our management business with long-term fee income streams which enhances our cash flow and strengthens our business.
- Our indoor ski operator, SNO!zone, which generates a significant flow of profit from a low capital base.

Description of the business

Each of our three principal funds has its own specialist management team. In each case the interests of the fund investors are represented by a fund manager.

Our funds	Property segment	Fund manager	Property manager
The Mall	Shopping centres	Morley	CRPM* team of 74
The Junction	Retail parks	Morley	CRPM team of 20
X-Leisure	Leisure property	Hermes	CRPM team of 35

* Capital & Regional Property Management

Our trade park portfolio, FIX UK, became a fund in March 2008. During 2007, whilst under C&R ownership, it consisted of a team of nine.

A further portfolio, our German big box retail business, has been created over the last few years, delivering good cash returns and can potentially be developed into a fund or realised for value.

In addition we have a number of wholly-owned properties and joint ventures. We try to restrict ourselves to ventures where our management expertise can add value.

Head office, London

Asset management and development opportunities

Our portfolios contain many asset management opportunities which will ultimately drive rental growth and investor returns. Most of these are reconfigurations and refurbishments within the existing portfolios and will generate rental growth with low risk relative to new builds.

Brands

The Company has developed six brands as follows:

Brand	Use
The Mall	Shopping centre portfolio
The Junction	Retail parks portfolio
X-Leisure	Leisure centre portfolio
Xscape	Leisure destinations anchored by ski slopes and cinemas
FIX UK	Trade centres
SNO!zone	The ski operator at the three Xscapes

Key relationships

Tenant relationships: our tenant relationships are of great importance to us. Our largest individual relationships are with Cineworld in our leisure division and B&Q in our retail parks. Our shopping centre business has nearly 1,250 retailers, the largest of which is Arcadia which accounts for 3.53% of its rent roll. In Germany the Metro Group is an important tenant with which we are beginning to cultivate a relationship.

Fund investors: the institutional investors holding units in our three funds provide two-thirds of the equity on which our business is built. The Mall has 50 such investors, including three from overseas. The Junction has 13 and X-Leisure has 19.

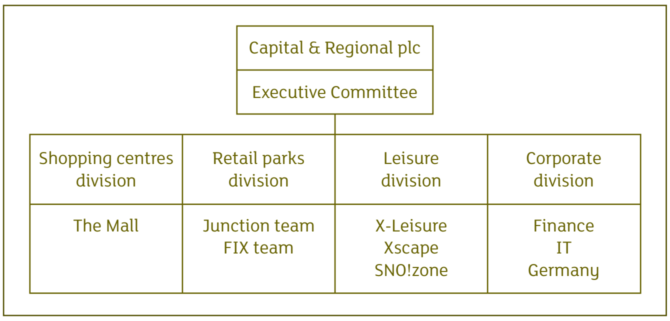
Fund managers: our principal fund managers, with whom we operate the three funds on a day-to-day basis, are also important to our business. Morley Fund Management represents investor interests on the Mall and Junction Funds, and Hermes does the same for the X-Leisure fund. The fund manager contracts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

Fund	Manager	Termination date
Mall	Morley Fund Management	31 December 2016 with an option for a further five year extension
Junction	Morley Fund Management	31 December 2011 with an option for a further five year extension
X-Leisure	Hermes Investment Management	16 March 2018

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

Our people

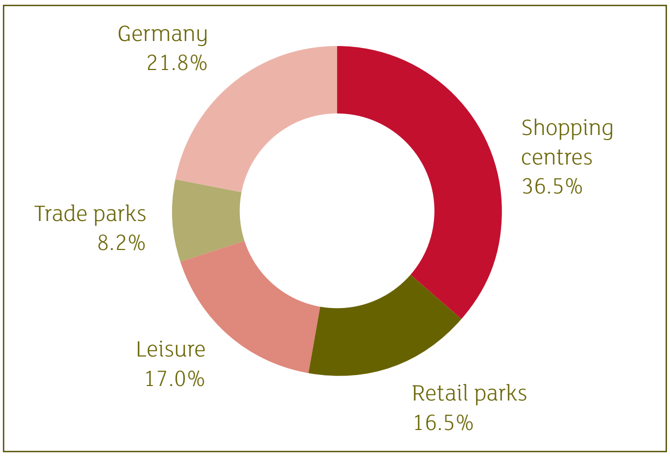
Our most important resource by far. We have three largely independent divisions, each with its own CEO supported by leasing, financial and marketing expertise. Business development (including the German portfolio), tax, corporate accounting and IT are the main functions run by the central corporate division. Matters of common interest are discussed at weekly meetings of the executive committee and through specialist cross divisional committees.



We have 1,073 people employed on three payrolls: Capital & Regional Property Management for our property management teams; Mall People for the At Mall teams; and SNO!zone for the people employed by our ski operator at the Xscapes.

Staff numbers	**2007**	2006
Shopping centres	**74**	62
Retail Parks including FIX UK	**29**	32
Leisure	**35**	32
Corporate	**57**	45
CRPM employees	**195**	171
Employed at the Malls	**309**	274
Employed at the leisure centres	**23**	25
SNO!zone employees	**546**	466
Total	**1,073**	936

Property exposure by market segment (see through basis)



Risks

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

Property market risks: small changes in property market yields can have a significant effect on the value of our portfolios. These issues are monitored regularly by our executive committee, and the results of monthly valuations are published monthly with our unit price announcements.

As a Company with retail and leisure tenants we are also exposed to a downturn in consumer spending. This would reduce the profitability of our occupiers, which could lead to an increase in vacancies. It would also reduce spending at our three SNO!zone locations. We manage this risk by diversification between different market segments and by deliberately targeting properties with strong defensive characteristics, where retailers are making profits.

Changes in the tax and regulatory environment: our business could be affected by tax law changes, particularly those directed at offshore structures through which we operate or by the increasing burden of regulation. These risks are monitored by the Finance Director and Chief Executive.

Loss of key management: our property management business is dependent on the skills of a few key individuals whose departure could adversely impact on the business. The risk is mitigated by the development of a next generation of management and through the Company's long-term remuneration schemes, which defer payments by two to three years and align shareholder and management interests.

Development risks: we have a substantial development programme both inside and outside our funds. This activity is subject to significant market, construction and commercial risk, which we mitigate by pre-letting a high proportion of the space and negotiating fixed price building contracts.

Treasury risks: interest rate or currency movements can have an impact on our cash flow and net assets. We normally offset between 50% and 100% of these risks through interest rate swaps or forward exchange contracts.

There is also a risk of further decline in the credit markets which could make it difficult to renew our debt when it falls due for repayment. We handle this risk by locking in our debt for significant periods ahead, and planning renewals well ahead of expiry.

Fund investors: the institutional investors who invest in our funds are important to the continued success of our business. Our relationships are documented in long-term management contracts, but these can be terminated under certain circumstances.

We work closely with our fund managers, Morley and Hermes, to maintain their support, keeping them fully informed through regular briefings and listening to their input on strategy.

Internet retailing and hypermarket diversification: there are well publicised fears about trade diversion from traditional retail outlets to the internet and major supermarkets. We monitor these trends carefully and actively manage our centres to keep them up to date and competitive.

The Mall

"The adverse effects of the financial market on The Mall business have, in part, been mitigated by the continuing operational and financial outperformance of our centres."

Kenneth Ford, Chief Executive, The Mall

The Mall Executive team
From left: Kenneth Ford, Gaynor Gillespie, Mark Bourgeois, John Wood, Richard Stubbs

What is The Mall?

The Mall is the UK's Community Shopping Centre Brand. The Mall Fund owns and operates approximately 10% of the UK's covered retail space making it the largest portfolio of branded shopping centres in the UK. It is managed by a dedicated team of 74 from Capital & Regional's Mall Corporation.

The Fund was formed in March 2002 with just two investors – the Capital & Regional Group and clients of Morley Fund Management. New investors have come in as the portfolio has expanded. The fund now has 50 investors, including three overseas institutions.

Our Malls have all been acquired under the following investment criteria:

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

Our management approach

Is direct and accessible. There are no barriers between our shoppers, retailers, business partners or suppliers. Each Mall has its own At Mall based management team which has access to retail marketing, financial, HR, IT, property management and valuation expertise located at our London and Glasgow offices. Our objective is to provide and promote a clean, safe and stimulating shopping environment, with the retail mix relevant to each local community. We create the right space for retailers, and create, manage and market an exciting branded retail environment for our shoppers. The success of this management approach has been recognised by our retailers through The Mall being awarded the "Best Service Charge Provider 2007" award. The Mall has also been included in the Sunday Times 100 Best Places to work list (59th position) 2008. There are scale benefits in terms of financing, branding, ancillary incomes and co-operation with retailers and other commercial partners on a portfolio basis. When we buy an extra centre we have a distinct competitive edge – we can immediately link it to our management system, and take steps to improve the retail offer.

The retailer market

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

Top five Mall tenants by rental income (2007)

	No of units	% of rent
Arcadia	41	3.53
Boots	21	3.28
Clinton Cards	34	2.44
Superdrug	19	2.05
New Look	17	2.02

Our performance pipeline

There are many asset management opportunities within the portfolio – our performance pipeline. Even the centres we have owned the longest, at Aberdeen (first acquired by C&R in 1993) and Wood Green (1996), are still generating new opportunities. These opportunities are driven by continuing changes in retail formats. Some chains are growing with new formats, others declining and willing to give up space. Changes in supply chain management have meant that traditional service yards and storage areas are becoming redundant and can be converted to revenue generating space. Expansion opportunities can also arise through the acquisition of neighbouring properties. The capital expenditure envisaged is relatively low risk. Where possible we build to demand with a substantial element of pre-letting. Our construction contracts are in the main fixed price. In consultation with The Mall Fund Manager, our appraisal regime estimates the required returns before the expenditure is undertaken.

Fund debt

In May 2005 The Mall issued £1,066 million of Mall Bonds which were rated AAA by all three rating agencies. In September 2006 a further £375 million were issued. The interest rates payable on these issues were Libor + 0.18% and + 0.19% respectively. In addition The Mall has an acquisition and capital expenditure facility of £300 million of which £263 million was drawn at year end. The Fund has also used interest rate swaps to fix its interest on £1,460 million (£200 million of this was fixed after 30 December 2007) of its debt until 2012. At 30 December 2007 it had a weighted average cost of debt of 5.48%. The Mall Bonds were issued by Mall Funding plc which lends the proceeds on to the LP on a back-to-back basis. The Mall Bonds are quoted on the Irish Stock Exchange. The remaining fund debt is provided by the Royal Bank of Scotland. Both the bonds and bank facility are due for repayment in 2012.

Corporate structure

Mall investors hold units in a Jersey Property Unit Trust (JPUT). In comparison with direct property investment, unitised investment via a fund, allows investors to access a diversified property portfolio, an ability to diversify risk, and access to specialist property management expertise. In addition, these JPUT units can be bought without incurring SDLT, a significant advantage over direct property investment where 4% must be paid. The JPUT is the limited partner in a Limited Partnership (LP) which owns the properties. The LP is managed by its General Partner, which in turn is advised by Morley Fund Management and Capital & Regional Property Management.

The Mall key statistics

	At 30 December 2007	At 30 December 2006
Gross property asset value	**£3,016m**	£3,125m
Number of properties	**24**	23
Number of units	**2,504**	2,404
Initial property yield	**4.84%**	4.56%
Equivalent yield	**5.69%**	5.21%
C&R share	**24.2%**	24.2%
Total debt (excl. amortised costs)	**£1,698m**	£1,504m

The Mall locations

Aberdeen
Barnsley
Bexleyheath
Blackburn
Bristol
Camberley
Chester
Edgware
Epsom
Falkirk
Gloucester
Ilford
Luton
Maidstone
Middlesbrough
Norwich
Preston
Romford
Southampton
Sutton Coldfield
Uxbridge
Walthamstow
Wood Green

The Mall properties

Retail park	Description	Size (sq ft)	Car park spaces	Principal occupiers	Number of lettable units
Valued at £40 million to £100 million					
Broadway Square, Bexleyheath	Leasehold hybrid retail warehouse scheme.	135,000	345	Sainsbury's, TK Maxx, Wilkinson, Peacocks	8
The Mall, Aberdeen	Freehold single level covered shopping centre.	190,000	400	Debenhams, Argos, HMV, Superdrug and Ottakars	37
The Mall, Barnsley	Leasehold covered shopping centre on two floors.	180,000	519	TK Maxx, Wilkinson, Next, Primark and Woolworths	49
The Mall, Edgware	Freehold single level covered shopping centre.	192,000	1,100	Marks & Spencer, Sainsbury's, WHSmith, Boots and New Look	58
The Mall, Falkirk	Freehold covered shopping centre, on two floors.	170,000	400	Marks & Spencer, Debenhams Desire, Argos, Woolworths, River Island, Boots and HMV	74
The Mall, Gloucester	Leasehold covered shopping centre, on two floors.	187,000	400	H&M, Marks & Spencer, Woolworths, USC, Republic, Sports Soccer, Market and MK One	73
The Mall, Romford	Leasehold covered shopping centre on three floors.	180,000	1,000	Asda, Wilkinson, Peacocks, McDonalds, Toni & Guy and Superdrug	56
The Mall, Southampton	Freehold covered shopping centre on two floors.	202,000	810	Matalan, Poundland and MK One	95
The Mall, Walthamstow	Freehold covered shopping centre on two floors.	260,000	870	Asda, BHS, Boots, Dixons, HMV, Top Shop and Top Man	72
Valued at £100 million to £150 million					
The Mall, Bexleyheath	Freehold single level covered shopping centre.	420,000	800	M&S, BHS, Woolworths, WHSmith, Boots, HMV and Next	92
The Mall, Epsom	Leasehold single level covered shopping centre with 55,000 sq ft of offices.	374,000	800	House of Fraser, Marks & Spencer, Waitrose, Superdrug, WHSmith, H&M and HMV	93
The Mall, Ilford	Freehold covered shopping centre on three floors.	294,000	1,200	Marks & Spencer, Debenhams, HMV, TK Maxx, WHSmith and Woolworths	108
The Mall, Preston	Freehold covered shopping centre on three floors.	287,000	400	Marks & Spencer, H&M, Superdrug, New Look, Wallis, Vision Express and WHSmith	117
The Mall, Uxbridge	Leasehold single level covered shopping centre with 40,000 sq ft of offices.	482,000	1,150	Marks & Spencer, Tesco, TK Maxx, Peacocks and Wilkinson	123
Valued at £150 million plus					
The Mall, Blackburn	Leasehold partially covered shopping centre on three floors.	609,000	1,078	Debenhams, Tesco, Boots, Argos, BHS and Woolworths	141
The Mall, Bristol	Leasehold covered shopping centre on three floors.	350,000	1,000	TK Maxx, Boots, Argos, Woolworths, WHSmith, Waterstones and Zavvi	165
The Mall, Camberley	Part leasehold covered shopping centre on one floor.	398,000	1,040	Argos, Army & Navy, Boots, Littlewoods, Sainsbury's and Woolworths	188
The Mall, Chester	Leasehold single level covered shopping centre.	307,000	521	Debenhams, River Island, H&M, Laura Ashley, Principles, Top Shop, Top Man and The Pier	153
The Mall, Luton	Leasehold covered shopping centre on two floors, offices extending to over 65,000 sq ft.	956,000	2,300	Debenhams, Boots, Primark, Next, Top Shop and Top Man, Marks & Spencer	163
The Mall, Maidstone	Freehold covered shopping centre, on three floors with offices extending to 40,000 sq ft.	553,000	1,050	Boots, BHS, TJ Hughes and Wilkinson	122
The Mall, Middlesbrough	Freehold single level covered shopping centre with offices extending to over 50,000 sq ft.	424,000	550	Boots, BHS, WHSmith, Top Shop, New Look and H&M	95
The Mall, Norwich	Freehold covered shopping centre on six floors.	371,000	800	Argos, Boots, H&M, TK Maxx, Mothercare, New Look, Zavvi and 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.	550,000	960	House of Fraser, BHS, Marks & Spencer, Woolworths, Boots, Argos and WHSmith	132
The Mall, Wood Green	Freehold, partially open shopping centre, on two floors with nearly 40,000 sq ft of offices.	590,000	1,500	Cineworld, TK Maxx,Wilkinson, Peacocks, Woolworths, HMV, Boots, Argos and WHSmith	158

The Junction

"Although Retail Warehousing saw a significant repricing in 2007, the Junction Fund continued to create new space for our tenants, made progress with our key developments, refurbished existing parks and focused on further improving our low vacancy rates"

John Gatley, Managing Director, The Junction

The Junction team
From left: John Gatley, James Boyd-Phillips, Jo Lord, Graham Inglis, Ian Harris

What is the Junction?

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

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

Our Management Approach

Our specialist retail warehouse team focuses on performance through asset management, new space development and our excellent tenant relationships. The strategy is to grow the Fund and leverage returns from portfolio scale, whilst also recycling capital from the sale of properties where business plans have been completed.

Market segments

Retail warehousing can be split into four categories:

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

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

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

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

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

The Junction specialises in prime mixed use retail parks. Our portfolio is currently split broadly 50/50 between properties with Open A1 and bulky goods use.

Top five tenants by rental income (2007)

	Units	%
B&Q	6	14.81
DSG Retail	11	7.49
Home Retail Group	6	6.25
Comet	9	5.19
Wickes	3	3.96

Development and reconfiguration opportunities

The Junction actively manages its portfolio, and in 2007 it completed 85,000 sq ft of new space and refurbished 211,000 sq ft of existing space. In addition it has two major developments:

Oldbury: the scheme comprises 400,000 sq ft covering retail warehousing, food and beverage, leisure and offices. Further prelets have been secured with others in legals. Site assembly progressed in the year and a CPO for the remainder of the site has now been entered. An amendment to the existing planning consent was achieved at the end of 2007.

Thurrock: during 2007 the Junction Thurrock partnership acquired further development land and an additional 94,000 sq ft of income-producing properties, adding to the 462,000 sq ft of existing space. This major redevelopment opportunity is supported by the Thurrock Local Development Framework and Development Corporation masterplan, but still remains subject to support within the over-arching East of England plan which is expected in spring 2008.

Corporate structure

Junction investors hold units in a Jersey Property Unit Trust (JPUT). In comparison with direct property investment, unitised investment via a fund, allows investors to access a diversified property portfolio, diversify risk, and access to specialist property management expertise. In addition, these JPUT units can be bought without incurring SDLT, a significant advantage over direct property investment where 4% must be paid. The JPUT is the limited partner in a Limited Partnership (LP) which holds the properties either directly or through a subsidiary holding structure. The LP is managed by its General Partner, which in turn is advised by Morley Fund Management and Capital & Regional Property Management.

The LP's interest in the Thurrock Retail Park is 65%, held through a similar holding structure.

The Junction key statistics

	At 30 December 2007	At 30 December 2006
Properties at market value	**£1,223m**	£1,590m
Number of properties (core)	**14**	16
Number of units	**223**	233
Initial property yield	**4.37%**	3.29%
Equivalent yield	**5.32%**	4.45%
C&R share	**27.32%**	27.32%
Bank debt	**£649m**	£696m

The Junction locations

Aberdeen
Aylesbury
Bristol
Glasgow
Hull
Leicester
Maidstone
Oxford
Paisley
Portsmouth
Slough
Swansea
Telford Forge
Thurrock

The Junction properties

Retail park	Description	Size (sq ft)	Car park spaces	Principal occupiers	Number of lettable units
Valued at below £50 million					
Renfrew Retail Park, Renfrewshire	Mixed bulky retail warehouse and industrial scheme.	57,089	n/a	Pets at Home	4
Broadwell Industrial Estate, Oldbury	Mixed use development site with consent for bulky and open A1 non-food retail and leisure.	37,065	n/a	–	6
Valued at £50 million to £100 million					
The Junction Abbotsinch Retail Park, Paisley	Bulky retail warehouse park.	184,581	694	B&Q, DFS, Comet, Land of Leather	6
The Junction Great Western Retail Park, Glasgow	Bulky retail warehouse park, adjacent to a Sainsbury's supermarket.	184,785	1,518	B&Q, DSG, JJB, SCS	10
The Junction St Georges Retail Park, Leicester	Open A1 retail warehouse park.	169,441	512	DSG, Next, Toys R Us, Mothercare	12
The Junction Ocean Retail Park and Victory Industrial Estate, Portsmouth	Bulky retail warehouse park with adjacent industrial estate.	234,218	705	Homebase, DSG, Halfords, Toys R Us	19
The Junction Kittybrewster Retail Park, Aberdeen	Open A1 non-food retail warehouse park.	141,578	626	TK Maxx, Halfords, Sportsworld, DFS	13
The Junction Cambridge Close Retail Park, Aylesbury	Bulky retail warehouse park.	191,668	650	Wickes, Comet, Argos, Sportsworld	14
The Junction Slough Retail Park, Slough	Mixed bulky and open A1 non-food retail warehouse park.	152,929	546	Homebase, Wickes, DFS, Land of Leather	7
The Junction Templars Retail Park, Oxford	Open A1 non-food retail warehouse park.	142,391	485	B&Q, Halfords, Comet, TK Maxx	7
The Junction South Aylesford Retail Park, Maidstone	Bulky retail warehouse park.	166,784	551	Homebase, Comet, BHS, Halfords, Currys	10
The Junction Morfa Retail Park, Swansea	Mixed bulky and open A1 non-food retail warehouse park, adjacent to a Morrisons supermarket.	339,568	1,042	B&Q, TK Maxx, Next, New Look, Sportsworld	20
Valued at £100 million to £150 million					
The Junction St Andrew's Quay, Hull	Bulky retail warehouse park.	350,521	1,315	B&Q, DFS, Comet, DSG	24
The Junction Telford Forge Retail Park, Telford	Open A1 non-food retail warehouse park.	312,962	1,343	Next, Tesco Home Plus, Arcadia , TK Maxx, Boots	19
The Junction Imperial Park, Bristol	Mixed bulky and open A1 non-food retail warehouse park.	338,667	1,200	B&Q, Woolworths, Tesco Home Plus, Next, JJB, Argos	21
Valued at above £150 million					
The Junction West Thurrock Retail Park, Essex	Open A1 non-food & leisure retail park.	555,868	2,398	Decathlon, M&S Outlet, Asda Living, TK Maxx, Furniture Village	31

X-Leisure

"Leisure property as an asset class is demonstrating resilience in the current market. This is underpinned by strong occupational trading levels and very active asset management initiatives which maximise portfolio performance and capitalises on our key industry partnerships. These partnerships give us a vital advantage in current market conditions"

PY Gerbeau, Chief Executive, X-Leisure

The X-Leisure team
From left: PY Gerbeau, Pierre Hardy, Robert Warner, Polly Farrell, Alastair Bell

What is the X-Leisure Fund?

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

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

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

Our management approach

With a top of class specialist leisure team at C&R, X-Leisure is well placed to continue to be the dominant leisure provider in the UK. X-Leisure is a recognised business to business and investor brand. The X-Leisure Fund, managed by C&R, and with Hermes as the fund manager, has developed a strong track record in both financial performance and in inclusive corporate governance.

It is also responsible for the design, construction and management/operation of the award winning Xscape destinations and SNO!zone operating business, both very profitable and successful consumer brands. X-Leisure has now fully implemented its business model of attracting quality footfall, increasing customers' length of stay and delivering higher profits for our tenants/partners, which in turn increase our returns to our fund investors and C&R shareholders.

Xscapes

There are three multi award winning Xscape destinations: Xscape Milton Keynes and Xscape Castleford became part of the X-Leisure Fund in February 2007. Xscape Braehead is the newest of the three, and is a joint venture between C&R and Capital Shopping Centres. See page 14.

SNO!zone

SNO!zone is the UK's premier real indoor snow slope operating business. With virtually no capital requirements, and with very strong cash flows and profits since 2001, SNO!zone Holdings is making a substantial contribution to C&R earnings business. See page 14.

C&R wholly-owned leisure assets

X-Leisure also manages Manchester Great Northern Warehouse and Hemel Hempstead see page 14.

Top ten largest leisure fund tenants/partners (2007)

	Number of units	Net income %
Cine UK	12	16.0
Vue Entertainment Limited	4	6.9
Virgin Active (including Holmes Place)	5	3.7
Sainsbury's Supermarkets Ltd	1	3.3
SNO!zone Limited	2	2.6
UCI (including Odeon)	2	2..5
City Centre Restaurants (UK) Ltd t/a Frankie and Benny's	16	2.2
J D Wetherspoon plc	8	2.1
Spirit Group Retail Ltd	5	2.1
Pizza Hut (UK) Ltd	13	2.0

Corporate structure

X-Leisure investors hold units in a Jersey Property Unit Trust (JPUT). In comparison with direct property investment, unitised investment via a fund, allows investors to access a diversified property portfolio, an ability to diversify risk, and access to specialist property management expertise. In addition, these JPUT units can be bought without incurring SDLT, a significant advantage over direct property investment where 4% must be paid. The JPUT is the limited partner in a Limited Partnership (LP) which holds the properties either directly or through a subsidiary holding structure. The LP is managed by its General Partner, which in turn is advised by Hermes Investment Management and Capital & Regional Property Management.

X-Leisure key statistics

	At 30 December 2007	At 30 December 2006
Gross property asset value	**£947m**	£917m
Number of properties	**19**	18
Number of units	**365**	350
Initial property yield	**5.06%**	4.86%
Equivalent yield	**5.78%**	5.58%
C&R share	**19.37%**	20.0%
Bank debt	**£485m**	£444m

X-Leisure locations

Aberdeen
Ashford
Birmingham
Boldon
Braehead
Brighton
Cambridge
Castleford
Croydon
Edinburgh
Leeds
London
Maidstone
Manchester
Milton Keynes
North Finchley
Norwich
Poole
West India Quay London
Wolverhampton

X-Leisure properties

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Valued at below £25 million				
Lockmeadow, Maidstone	This destination is home to the 700 year old Maidstone Lockmeadow Market.	139,780	Odeon Cinema, Luminar Leisure, David Lloyd	10
Queens Links, Aberdeen	This leisure park, adjoining The Beach Esplanade, features a cinema and numerous restaurants.	128,081	Cine UK, Gala	9
Bentley Bridge, Wolverhampton	Comprises a multiplex cinema, restaurants and canal-side pub.	108,843	Cine UK	9
Boldon Leisure Park, Tyneside	Cinema & restaurant complex adjacent to Asda.	56,777	Cine UK	4
Valued at £25 million to £50 million				
Cardigan Fields, Leeds	This scheme is approximately 1.5 miles from Leeds city centre. It comprises a cinema, bowl, health club and numerous restaurants. Included within the 14 units are two industrial units.	230,606	Vue, Hollywood Bowl, Virgin Active, Spirit Group	14
Fiveways, Birmingham	In central Birmingham, Fiveways comprises a cinema, casino, restaurants and late night bars.	186,345	Cine UK, Grosvenor Casino	11
West India Quay, Docklands London (50%)	This listed building contains bars, restaurants, multiplex cinema, health and fitness centre and the Museum of Docklands.	70,857	Cine UK, LA Fitness, Tattersall Castle Group	17
Grants, Croydon	This modern urban entertainment centre is constructed behind a restored listed façade and contains a multiplex cinema, health club, bars, nightclubs and restaurants.	149,002	Vue Cinema, Virgin Active, Tiger Tiger, Mitchells & Butler	10
Parrs Wood, Manchester	This centre has a mixture of facilities, including family restaurants, health and fitness, bowling, multiplex cinema, bingo, children's entertainment and a hotel.	234,286	Cine UK, Holmes Place, Ten Pin	11
Eureka Park, Ashford	This centre comprises multiplex cinema, family restaurants, health and fitness, nightclub, hotel, children's nursery and free parking.	101,826	Cine UK, Travelodge, Living Well	9
Tower Park, Poole	Comprises a range of attractions, including a multiplex cinema, bowling, bingo, health club, water park and family restaurants.	199,452	Empire, Bowlplex, LA Fitness	16
Cambridge Leisure Park, Cambridge	This centre has a nine screen multiplex cinema, health club, bowling, a hotel and range of international bars and restaurants.	147,024	Cine UK, LA Fitness, Tenpin	20
Great North Leisure Park, North Finchley, London	Comprising a multiplex cinema, bowling, restaurants and a local authority swimming pool.	88,185	Vue Cinema, Hollywood Bowl	7
Valued at above £50 million				
02, Finchley Road, London	This modern urban entertainment centre contains a multiplex cinema, health club, a mix of bars and restaurants and retail.	271,620	Vue Cinema, Sainsbury's, Homebase, Habitat, Esporta	23
Brighton Marina, Brighton	The marina combines a mix of retail, leisure and residential, a working harbour and yacht moorings.	339,325	Cine UK, Bowlplex, David Lloyd	75
Riverside, Norwich	This entertainment centre comprises bars, restaurants, nightclubs, multiplex cinema and bowling.	197,638	UCI, Hollywood Bowl, Luminar Leisure	13
Fountain Park, Edinburgh	Scotland's largest entertainment destination.	232,997	Cine UK, Tenpin, Virgin Active, Mecca Bingo, Stanley Casinos	12
Xscape Castleford	This destination is anchored by one of the UK's largest indoor real snow slopes.	370,809	SNO!zone, Cine UK, Bowlplex, Ellis Brigham	50
Xscape Milton Keynes	This destination is anchored by one of the UK's largest indoor real snow slopes.	423,698	SNO!zone, Cineworld, Virgin Active, Spirit Group, Ellis Brigham	45

FIX UK

"This new fund offers the potential for greater scale and presence in the market."

Xavier Pullen, Deputy Chief Executive

FIX UK
Xavier Pullen

What is FIX UK

FIX UK is the brand name for a portfolio of trade centres. It became a Fund with new investors on 6 March 2008 led by Paradigm Real Estate Managers Ltd and the Bank of Scotland Corporate. C&R now holds 20%, whereas during the 2007 financial year it held 100%.

Trade centres

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

The investment criteria agreed for the acquisition programme are:

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

Active management

During 2007 we employed nine people focused on growing and managing the portfolio. They also worked hard to develop key relationships by working with nationwide tenants such as Travis Perkins, Wolseley, Kingfisher, Howden Joinery, the Grafton Group, Magnet, HSS Hire and the BSS Group.

On 6 March 2008 we agreed to pass the day-to-day management to Paradigm Real Estate Managers Ltd who are able to handle the portfolio more efficiently alongside an existing portfolio. C&R retains significant influence through its 20% remaining holding and representation on the GP board.

Top five tenants by rental income (2007)

Tenant	Number of units	Percentage of rental income
Wolseley Centres Limited	14	7.21%
Multi Tile Limited	10	5.77%
MKM Building Supplies	6	5.31%
Howden Joinery Properties Limited	9	4.62%
Selco Trade Centres Ltd	1	3.50%

Corporate structure

During 2007 we changed the holding structure towards our standard: we invest in a Jersey Property Unit Trust with a second unit trust which is the limited partner in a UK Limited Partnership.

In March 2008 the new investors bought 80% of the units in the Jersey Property Unit Trust.

FIX UK key statistics

	At 30 December 2007	At 30 December 2006
Gross Property Asset Value	**£170m**	£110m
Number of Properties	**49**	24
Number of Units	**241**	166
Initial Property Yield	**5.26%**	4.51%
Equivalent Yield	**6.26%**	5.72%
C&R Share	**100%**	100%
Bank Debt	**£119.5m**	£70m

FIX UK locations

Aberdeen
Alnwick
Bedford
Berwick
Braintree
Bridlington
Bristol
Buckingham
Cannock
Canterbury
Cardiff
Chepstow
Doncaster
Dudley
Evesham
Falkirk
Gloucester
Goole
Grantham
Greenock
Hartlepool
Hemel Hempstead
Huddersfield
Huntingdon
Ipswich
Irlam
Liverpool
Livingston
Milton Keynes
Newcastle
Northampton
Norwich
Plymouth
Poole
Ramsgate
Reading
Scarborough
Sheffield
South Shields
Stevenage
Sunderland
Swindon
Truro
Waltham Cross
Whitby
Witney
Wrexham

FIX-UK properties

Trade centres	Description	Size (sq ft)	Principal occupiers	Number of lettable units
32 properties valued at below £4 million	Various	804,887	Various	109
Valued at £4 million to £8 million				
Miller Street, Aberdeen	Well located scheme on the inner ring road with tenant engineering opportunities during 2008 & 2009.	68,163	Keyline Builders Merchant, Dulux, Chubb, William Wilson	8
Kingfisher Business Park, Bedford	Purpose built trade centre.	38,012	Wolseley, Jewson, British Red Cross	15
Broad Oak Trading Estate, Canterbury	Well located scheme which has been refurbished.	40,201	Benchmark, Nationwide Auto Centres, Plumbase, Nationwide Crash repairs	5
Wheatley Hall Trade Park, Doncaster	Purpose built trade centre located adjacent to Wheatley Retail Park.	49,303	Topps Tiles, Carpetright, Formula One, Jewsons, GSF, Bathstore.com, Rexel Senate, Al Murad, Tile Giant & Victoria Bathrooms	12
Davies Road, Evesham	Development site.	48,545	Pre-lets to Buildbase, Topps Tiles, City Electrical Factors, BSS Group, IMO	10
Woodrow Way, Gloucester	Scheme offers a significant redevelopment and refurbishment to provide c. 72,000 sq ft.	66,535	Dulux, BSS Group, Teledyne, Topps Tiles	7
New Houstoun BP, Livingston	Purpose built trade centre.	42,488	Cupa Natural Materials, Tile It All, HSS Hire, Screwfix	4
Cabot Lane, Poole	Purpose built trade centre.	42,120	Trade Depot, Screwfix, Shore Floors	11
Portman Road, Reading	New scheme located opposite the proposed Battle Hospital redevelopment site.	64,860	Selco and Rodmatic	3
Sheffield	Located on a prime arterial road, the scheme requires refurbishment.	55,873	Newey & Eyre, Al Murad, BSS Group, Howden Joinery, Tile Giant	6
Stevenage	Located on a prime arterial road with potential for extension.	33,655	Safe Store, Kwik Fit and HSS Hire	4
Inkerman Street, Sunderland	Well located scheme, which will be refurbished and units reconfigured.	78,486 ,	Magnet, Goodyear, Screwfix , BSS Group, Hagemeyer, Ashtead Plant Hire, Plumbase	14
Barnfield Road, Swindon	Well located scheme opposite the new B&Q which will be refurbished and units reconfigured.	43,893	HSS Hire, Multi Tile, Tile Giant	5
Wren Units, Truro	Well located scheme adjacent to the prime retail warehouse scheme in Truro.	47,648	Autoglass, City Electrical factors, Kalon, Plumbase, Hewden Hire x2, Magnet, Jewson	11
Waltham Cross	Scheme has been refurbished to provide a modern trade centre offer.	28,107	Multi Tile, Wolseley Centres, Magnet x2	4
Valued at above £8 million				
Trade Centre, Bletchley	Purpose built trade centre.	47,889	Kalon, BSS Group, Howden Joinery, Multi Tile, Floors 2 Go, City Electrical Factors, HSS Hire	12
Enterprise Trade Park, Bristol	Purpose built trade centre.	68,163	Motor World, Multi Tile, Mays Carpets, Tile Giant, Derwent Flooring	11
Forward commitments				
Hemel Hempstead	Forward commitment to purchase.	20,626	Four units under offer	9
Irlam	Forward commitment to purchase.	50,630	DSG Retail Limited	9

German portfolio

"We are delighted with the performance of our German investments which are producing strong cash returns. In addition, they offer ongoing asset management opportunities which will drive future returns."

Xavier Pullen, Deputy Chief Executive

The Germany team
From left: Xavier Pullen, Wilhelm zu Wied, Christoph Friedrich

Our German portfolio:

We acquired our first German assets in 2005 and have significantly expanded the portfolio since then. We added a further six properties in 2007. We now have 50 properties with a total floor space of 469,000 sq m. Our investment criteria have been:

- Established out-of-town retail locations.
- Large stand-alone hypermarkets and retail parks with sales area of more than 3,500 sq m (current average 9,380 sq m) with substantial land and car parking.
- Strong covenants.
- Shorter leases preferred leading to asset management opportunities.

Why Germany?

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

- severe restrictions on further out-of-town development;
- good tenant covenants and long leases; and
- index linked rents.

We are also attracted by the high yields, secure income profile and low interest rates available in this market segment.

Our main tenants

Our German out-of-town retail investments differ markedly from our UK portfolio. We have concentrated on stand-alone retail units with the emphasis mainly on food stores and some DIY. We are seeing continued strong tenant demand in the out of town sector and we expect that this is unlikely to change.

Top five tenants by floorspace (2007)

Principal tenants	% floorspace
Metro Group (including logistics)	38.0
Edeka Group	8.9
Rewe group	7.3
Praktiker	6.3
Coop eG	6.2

Management initiatives

We are working with our German Partners to improve returns through active asset management. This includes extending existing units and negotiating several lease extensions. We are also working with tenants to refurbish or redevelop locations prior to lease expiry.

Corporate structure

Our investment in Germany is held through a series of Jersey companies, which either hold the properties directly, or through interests in KGs.

Germany key statistics

	At 30 December 2007	At 30 December 2006
Gross property asset value	**€668m**	€567m
Number of properties	**50**	44
Number of units	**193**	143
Initial property yield	**5.99%**	6.01%
Equivalent yield	**n/a**	n/a
C&R share	**91.4%**	92.2%
Bank debt	**€485m**	€419m

Germany locations

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

German properties

	Description	Size (sq m)	Principal occupiers	C&R share
25 properties with individual values less than €10 million	Various	74,952	Various	Greater than 84%
Valued at €10 million to €20 million				
Balingen	DIY	7,457	Toom	85%
Bochum Langendreer	Hypermarket	6,388	Kaufland	76%
Elchingen	Hypermarket	7,433	Real	100%
Herne	Hypermarket	7,412	Toom	90%
Hösbach	DIY	12,955	Globus	90%
Ingelheim	Hypermarket	10,245	Real	90%
Koln Gremberg	Hypermarket	8,300	Real	90%
Kreuztal	Hypermarket	6,369	Extra	80%
Lauchhammer	Retail park	17,675	Marktkauf	85%
Marl	Retail park	8,795	Kaufland	90%
Oschersleben	Retail park	10,484	Marktkauf	81%
Sobernheim	Hypermarket	7,387	Real	84%
Stadthagen	DIY	10,913	Hagebau	90%
Valued at €20 million to €50 million				
Bremen Haferwende	Logistics	54,391	MGL	100%
Brühl	Supermarket	17,525	Real	85%
Cottbus	Retail park	29,884	Praktiker	100%
Hameln	Retail park	16,893	Kaufland	85%
Krefeld	DIY	11,697	Praktiker	100%
Moerfelden	Retail park	12,140	REWE	90%
Rangsdorf	Furniture store	18,506	Roller	100%
Sinzheim	Hypermarket	16,536	Real	90%
Trier – Kenn	Hypermarket	11,634	Real	90%
Valued at €50 million to €100 million				
Dortmund	Retail park	32,978	Real	85%
Lübeck	Hypermarket	29,077	Plaza	90%
Toenisvorst	Retail park	20,603	Real	100%

Joint venture and other interests

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

Joint venture and other interests

	Partners	C&R share
Xscape Braehead, Glasgow	Capital Shopping Centres	50%
Glasgow Fort	British Land	50%
Manchester Arena	GE Real Estate	30%
Capital Retail Park, Cardiff	PMG Estates Limited	50%
Gt. Northern Warehouse, Manchester	–	100%
Leisure World, Hemel Hempstead	–	100%
SNO!zone, ski slope operator	–	100%

The Xscapes
Three Xscapes have now been built, and the first two, at Milton Keynes and Castleford, were acquired by the X-Leisure fund in February 2007.

The Xscape in Braehead opened in April 2006. It is 95.4% let and the retail and catering units are trading well.

Glasgow Fort
This highly successful fashion park was developed in partnership with Pillar Property, now part of the British Land Group. It was sold to the Hercules Fund in 2004 but C&R has a financial interest in further phases.

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

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

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

The project involves the construction of a 280,000 sq ft retail park in Cardiff, with a land sale of part of the site to Asda for a 90,000 sq ft foodstore. Practical completion is expected in August 2008. The project is now 53% prelet.

Cardiff Council is constructing a new football stadium for Cardiff City Football Club on an adjacent site, due for completion in summer 2009.

Great Northern Warehouse, Manchester
We are nearing completion of our active management programme for this building. When we first took a stake in 2003 the building had significant vacant space, and needed to be brought to life. Our leisure team let 44,673 sq ft to London Clubs International and this is now trading successfully as a casino called Manchester 235. We have also obtained the planning permissions and licensing for a nightclub occupying 38,110 sq ft of the space, and are in advanced negotiations with a major nightclub operator.

Leisure World, Hemel Hempstead
We bought this leisure property through our contacts with Luminar Leisure, and have a number of ideas for adding value in the medium term.

Earnings businesses
In addition to the assets businesses on the previous pages, which are held in the balance sheet at valuation, the Group has two earnings businesses which generate substantial income which is not available to many other property companies.

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

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

Capital & Regional Property Management (CRPM)
CRPM is the company which employs our specialist property management teams. It also holds long-term management contracts with each of the three funds. It earns a regular stream of fee income, which covers the cost of the specialist teams, and also the corporate overheads. In addition it earns performance fees which are calculated as a proportion of the fund's outperformance over a rolling three year period. In years of poor performance the formula can produce negative fees capped at the amount paid for the previous two years.

Joint ventures and other property interests

Property	Description	C&R share	Size (sq ft)	Principal occupiers	Number of lettable units
Valued at £10 million to £25 million					
Leisure World; Jarman Fields, Hemel Hempstead	First generation leisure park acquired in 2005 for redevelopment or refurbishment.	100%	156,000	Luminar Leisure, Odeon Cinema	2
Valued at £25 million to £70 million					
Manchester Evening News Arena	Largest indoor arena in the country with additional mixed use and retail space.	30%	154,769	SMG (UK) Limited, Network Rail, JD Williams & Co Limited	5
Valued at £70 million to £100 million					
Great Northern, Manchester	Located in Manchester city centre, this converted Victorian warehouse includes bars, restaurants, a health and fitness centre, shops and multiplex cinema.	100%	366,382	AMC Cinema, Virgin Active, London Clubs International	47
Xscape Braehead, Glasgow	This newest Xscape has all the extreme sports of Xscape Leeds and MK but also includes golf and football attractions.	50%	374,112	Odeon, SNO!zone, Bowlplex, Ellis Brigham	37

Responsible business

Overview

At Capital & Regional, we believe that the long-term success of our business depends on the ability to build sustainable relationships with investors, customers, suppliers, local community stakeholders, and our own people. This can only be done by behaving in a responsible manner towards them, and towards the natural environment; and by being aware and responsive to their needs and points of view.

Being a responsible business means that all of the business' activities and operations must be carried out in a responsible manner, down to every decision that we take as a business; and every interaction that we have. Two years ago we began to map out our approach to Responsible Business (RB), in order to provide a framework for measuring performance and improvements, and identify the key areas where we have an impact. These are: the managing of responsible business; marketplace (customers & suppliers); the environment; workplace; and local communities, which are discussed in more detail below.

This year we have made progress across divisions in all areas, but particularly in measuring and managing our environmental impacts and developing a more strategic approach to community investment. Next year the challenge will be to ensure continued improvements in these areas, to develop our measurement frameworks, and to develop our approach to engaging with occupiers and suppliers in our RB agenda.

Below we outline our group-wide approach to these areas, and highlight some activities that took place over the last year showing how this approach is implemented in practice. Further information on specific leisure, retail park, and shopping centre activities can be found on those divisions' websites. We acknowledge that there is more that we can do to improve our RB practice, and to this end we have identified some priorities for the coming year within each key area.

Managing Responsible Business

In order to deliver value to all our stakeholders, we believe that our RB programme must be action-oriented and tailored to the relevant business divisions. Capital & Regional manages Responsible Business in the same way as it does other operating areas, by allowing our operating divisions autonomy to develop an approach that is suitable for them; whilst providing broad strategic direction and a forum for supporting one another and encouraging progress through a Responsible Business Committee.

The Responsible Business Committee meets three times a year and includes three main Board directors: Alan Coppin (Chairman), Xavier Pullen and William Sunnucks, as well as divisional representatives who are responsible for delivering RB activities within the funds, and who report on progress at each meeting. The group has developed certain broad policies within which the divisions must work to enable consistent progression across all divisions and to allow the RB committee to ensure activities are aligned with good practice. The committee reports regularly to the Board.

Marketplace – Customers and Suppliers

As a group, our policy is to treat those who occupy, use and supply our properties with respect, and to engage with them as partners. We aim to work closely with our occupiers to respond to their needs, and their customers' needs; for example through marketing and safety initiatives at our centres. We also look to form strong relationships with suppliers, who are local to our activities wherever practical, and to engage with them on responsible business activities, as they support us in the delivery of a successful RB programme.

We measure the success of these relationships on a divisional level. The Junction, The Mall and FIX UK commission independent tenant satisfaction surveys on an annual basis, and SNO!zone conducts regular customer surveys, the results of which are published internally on a monthly basis. The aim is to maintain or improve satisfaction each time; and we have so far managed to do this. We strive to continuously build and improve on our existing relations by listening to the feedback we receive from customers and tenants at both head office and ground level.

2007 Highlights

- Our trade park division, FIX UK, improved their customer satisfaction by almost 20% in 2007, their second year of trading, bringing average satisfaction to a rating of 6.35 out of 10.
- For the second year running, The Mall received the accolade of being the "Best Service Charge Provider" in 2007 by the Property Managers Association, the representative body of retail occupiers.

2008 Priorities

- Develop a procurement policy for head office which will include social and environmental considerations.
- Continue to maintain or improve customer satisfaction across our divisions.
- Increase engagement with tenants on social and environmental issues.

Case Study: The Junction's "Park Mark" accreditation

Over the course of 2007, The Junction's operations team worked hard to further improve safety standards in the car parks and shared areas of our sites in order to reduce crime and anti-social behaviour. CCTV has been installed on all parks, as well as other crime prevention initiatives, often in conjunction with the local police force.

Our aim over recent years has been to achieve a "Park Mark" accreditation for our schemes, awarded by the police, in order to show tenants and customers that our parks are well managed and safe environments. Determining factors include lowering the crime statistics, good and effective lighting, regular tenant liaison, and cleanliness.

During 2007 and early 2008, we underwent the assessment process and achieved the "Park Mark" accreditation at all of our parks. This makes us the first Retail Park landlord to achieve this across the whole portfolio.

Environment

We believe the property industry has a significant role to play in combating environmental degradation; and strive to continuously improve the environmental sustainability of our investments. To this end, we developed an Environmental Policy during the year to provide a framework for managing the group's impact on the environment across the portfolio.

The policy is made available to all interested parties through our website, and directs that, as a minimum, Capital & Regional group, and its businesses will:

- Comply with all relevant environmental legislation and regulations
- Identify and measure the most significant environmental impacts
- Set targets to improve environmental performance in these areas
- Include environmental criteria when choosing services and goods to purchase, and communicate objectives to supplier
- Communicate the policy, targets and environmental activities to all staff and interested parties

All divisions are expected to identify their own key environmental impacts, and develop their own environmental management systems to respond to these. In all cases, this will include the use of energy, water and other natural resources; and the production and disposal of waste.

This policy was approved by the Board in September 2007, and we have set a target to implement it across all our operations by June 2008. Our divisions are already making significant progress to this end; and have begun the process of identifying and measuring their most significant environmental impacts, and setting targets to improve.

The Mall and X-Leisure take part in the annual Upstream property benchmarking survey, which enables them to assess their environmental performance on a property by property basis. Upstream is also working with The Junction to measure their performance and develop an Environmental Management System for the division, as well as looking at the Group's environmental impact at head office and identifying ways of reducing these.

Additionally, The Mall and X-Leisure are working with the Carbon Trust to develop a Carbon Management programme for their business, as this has been identified as one of their key impact areas. They have already implemented numerous improvements to their energy efficiency and environmental impacts at their destinations. Further details of X-Leisure's activities can be found in their Responsible Business summary report 2008. The Mall have developed the EnviroMall initiative, a comprehensive programme, implemented across all 23 shopping centres, designed to take a lead in the environmental management of covered shopping centres in the UK. The initiative has its own website, www.enviromall.co.uk, where further information can be found.

2007 Highlights

- A group-wide environmental policy was developed and approved by the Board
- The first EnviroMall week was held in August 2007 to raise awareness amongst shoppers and retailers about what they could do to reduce their impact on the environment. More than 13,000 pledges to make a difference within their own homes had been received by shoppers by the end of the week.
- X-Leisure reduced their CO2 emissions by 24%, and increased recycling by 57% across the portfolio from the previous year.

2008 Priorities

- Ensure the environment policy is fully implemented throughout our activities by June 2008, and communicate the policy to our staff.
- Continue to monitor our energy use across our divisions, and look at ways of reducing these. X-Leisure are aiming to reduce energy use by a further 10% across their portfolio.
- Continue to monitor and roll out recycling programmes at head office and in our divisional operations. The Mall are aiming to recycle 70% of all waste in their shopping centres.

Case Study: Slope lighting at SNO!zone Milton Keynes

At our Milton Keynes slope we have replaced our slope lighting system, at the suggestion of one our maintenance team members. Graham Hunter worked on his own initiative to source a more energy-efficient lighting system which uses a high pressure fluorescent lamp.

We estimate there will be a saving of around 347,000 Kwh per year from the lighting system alone which, based on Defra conversion factors, is a reduction of around 40 tonnes of carbon. Furthermore, one of the by-products of lighting is the heat produced; with this system, much less heat will be emitted, meaning we can also turn the cooling system down and save even more energy.

There's also a cost benefit – in monetary terms, we conservatively expect the total savings to be over £42,000 a year on our energy bills and the payback for the capital investment will be 1-2 years. Finally, the new lamps have an average lamp life of 50,000 hours, compared with the average lamp life of only 3,000 hours for the old type. So thanks to Graham, we're lightening the maintenance load for the team as well as saving money and reducing our carbon footprint.

Workplace

Capital & Regional wants to recruit and retain the best talent available, to reflect the communities we serve, and to help the business to continue to perform as well as it can. To do this, we believe it is important to provide fair pay, conditions, and health and safety standards; to treat staff fairly and equally; and to encourage our staff to grow through training and development opportunities. We also strongly believe in fostering a working culture that is professional but enjoyable, where a team sprit prevails, and where all individuals' contributions are valued.

We believe that the diversity of our people is an asset to the business, and have an equal opportunities policy which encourages and promotes diversity. At the end of 2007, the business had grown to employ 1,073 people across the group, 52% of which were male and 48% of which were female.

During 2007, we took time to improve our workplace processes, and as a result of this launched "C&R People", a web based employee toolkit. We also introduced several new schemes at head office including a "Give as you Earn" scheme to enable staff to donate to charity directly through their payroll, and a "Bike2Work" scheme. This enables staff to buy bicycles in a cost-effective way for commuting into work, and supports our environmental aims.

Responsible business continued

The Mall and SNO!zone have their own HR teams to support the significant number of employees employed on-site (309 at the Mall, and 546 at SNO!zone), and they also continued to develop their people processes during the year. The Mall have been accredited as "Investors in People" since 2002, and have a wide ranging training and development programme under the banner of "M Power". SNO!zone spent time strengthening its HR processes during the latter part of 2007, and recently launched the first of its branded "REAL SNOW REAL PEOPLE" initiatives, via an interactive handbook. SNO!zone also have a range of workplace initiatives including providing free or part-funded places on an ongoing basis for unskilled employees to re-train as ski or snowboard instructors. This year 36 members of staff benefited from the training course, and a further 8 instructors were able to go to Switzerland to complete their Adaptive coaching award which enables them to teach individuals with a range of disabilities.

2007 Highlights

- Launched "C&R People", our web based staff information tool
- Progressed our approach to health and safety, and developed our Health and Safety Committee, which will now be chaired by Xavier Pullen.
- The Mall has been awarded a prestigious two star status as an "outstanding" Company to Work for by "Best Companies", the process supported by Sunday Times.

2008 Priorities

- Expansion of the web-based "C&R People" information system to include a line manager toolkit as well as an employee toolkit.
- Launch a monthly e-newsletter for head office staff to share information between divisions, and continue to engage people in Responsible Business issues.

Case Study: The Mall is No. 59 in The Sunday Times Best Companies to Work for 2008

Over 850 companies registered to take part in the 2008 Sunday Times Best Companies to Work for, and The Mall is very proud to have been placed at Number 59, following a very high response rate from staff. We were rated highly across all of the topics surveyed, including leadership, personal growth, well being, "my team", "my company" and "my manager". We also received some positive personal comments from over 200 staff, for example:

"I have never known a company give as much training as The Mall. They are fully committed to helping all departments reach their full potential. I am proud to represent The Mall brand."

"You feel your opinion counts and therefore you are able to influence business decisions. The passion for the business is easy to see right through the company, even to visitors, and you get a positive buzz when you come into work."

The result is a fantastic achievement for The Mall – and it's all thanks to Mall people.

Local communities

We aim to provide local communities with safe, clean and attractive centres in which to shop, work and spend leisure time, and recognise that our businesses can be integral parts of those communities. One of our key objectives is that local people see them as positive assets to their area, and we try to ensure that this is the case by being responsive to the communities of which we are a part – by listening and responding to the views of a wide range of local people, and demonstrating our long-term commitment to them.

We also believe that our responsibility to local communities goes beyond just providing high-quality work, leisure or shopping destinations; by actively participating in activities that bring sustainable support and benefit to the local area where we can, and supporting the causes that are important to our customers, visitors and neighbours. This allows us to build ongoing positive relationships with local people and communities, and we believe this contributes to the long-term prosperity of our business. Part of this work is through fundraising for, or donating to, local charitable causes, which is done at a divisional level.

As a group, we also believe in the ability of shopping and leisure destinations to contribute to the regeneration of local areas, economically, socially and environmentally. We actively pursue opportunities to develop sites that will contribute to local regeneration, and at the moment have schemes underway at Oldbury and Cardiff.

2007 Highlights

- £899,863 raised through the Mall Cares Heart Strings programme, and individual fundraising activities, with monies donated to over 50 local charities.
- The Junction developed a community policy which focuses on long-term social and economic development of communities to guide their local investments, and funded a range of community projects within this criteria.

2008 Priorities

- To organise at least one community programme or event at each retail and leisure destination within our portfolio.
- To measure the amount given to, and raised for, charitable causes during 2008 across all of the group's businesses.
- To raise £1 million for local charities through the Mall Cares programme.

Case Study: BTCV Scotland Green Gym

In October 2007, SNO!zone and X-Leisure launched in conjunction with Braehead Shopping Centre a £15,000 three-year co-funding of a BTCV Scotland "Green Gym" near to their Braehead destination. The initiative is about creating healthy people and healthy places by transforming waste ground into community recreational space where wildlife can flourish.

Local people of all ages volunteer to "work out" in the open air through local, practical environmental work. On average, around six volunteers attend each session, and each month we get six new volunteers register their interest and become members of the green gym.

Since the project commenced, they have spent 89 days outdoors in various projects from creating wildlife gardens, woodland management, and repairing and restoring fences and paths. The programme will be further rolled out over the coming years.

Chairman's statement

Capital & Regional has seen a marked fall in the valuation of many of its property interests in 2007, a year in which there have been exceptional stresses in the world's financial markets.

Although net rental income and management fees were resilient, contributing to recurring pre-tax profits of £32.7 million (2006: £32.3 million), the weakness of UK property valuations, the impact of gearing in a falling market and the claw-back of performance fees led to a reduction in triple net NAV per share to £10.04 per share (December 2006: £12.72 per share). The pre-tax loss for the year, which under IFRS includes the unrealised valuation deficit, was £167 million (2006: £251 million profit).

A final dividend of 17p per share is being recommended, the same level as last year. When combined with the increased interim dividend of 10p per share already paid, shareholders will enjoy 4% higher dividend income than in respect of 2006.

2008 promises a continuation of the challenging conditions seen in 2007, with a market consensus of further downward movements in UK valuations during the course of the year. The Company is prepared for these conditions and the release of capital arising from the formation of a trade parks fund since the year end has further strengthened our position.

Turbulence in the financial markets is outside the Company's control, whereas the active management of the £6 billion of properties for which we are responsible is our constant focus. We have continued to work on our tenant mix, grow footfall and concentrate on what the visitors to our centres and parks want. The attractiveness of our properties to our tenants is consequently strengthened; and, in turn, looking through the volatility of current conditions, their ultimate value should be enhanced.

This can only be achieved through the efforts of all of our employees and, in such a testing year, their performance has been exemplary and deserves our thanks. They will be led from 1 April 2008 by a new Chief Executive, Hugh Scott-Barrett, who was from 2000 to 2007 a member of the managing board of ABN AMRO, most recently as chief financial officer. He succeeds the Company's founder Martin Barber, whose extraordinary contribution to the Company over the past thirty years provides the base from which future growth can be built. On behalf of shareholders, the Board thanks him warmly for everything he has done for the Company.

Tom Chandos
Chairman
10 April 2008

Operating review

Occupier markets

Our occupier markets have been generally stable, and as yet we have not seen any tangible signs of the long anticipated downturn. Market conditions in our five portfolios are described below:

Our shopping centres enjoyed "business as usual" during 2007. Estimated Rental Values (ERVs) grew by 5.5% (1.9% excluding major developments) and net rental income increased by 6.3% (2.8% on a like-for-like basis). The annualised rental income lost through bankruptcies in January and February 2008 was 1.3% of the total, compared to 2.1% in Q1 2007. Our average occupancy level throughout 2007, including space under development, was 94.9%, down from a 95.3% average in 2006. This reflects increased development activities principally at our Malls in Blackburn and Wood Green. Net space available to let at the year end represented 2% of ERV compared with 2.1% in 2006.

Our **retail parks** saw an increase in net rental income of 5.0% and a fall in retail warehouse vacancies from 5.3% to 4.5%. However, rental growth prospects for bulky goods retail parks were adversely affected in early 2007 as a result of "big-box DIY" market rent reviews and declining demand for space from other bulky goods operators. The Junction portfolio has six B&Qs whose estimated rental values (ERVs), on a like-for-like basis, fell by 7.6%. ERVs in the remainder of the portfolio remained stable with a nominal fall of 0.9%.

Our **leisure portfolio** has seen the best cinema trading for the past decade. Overall, Leisure has been very resilient as an asset class and is confirming our previous experience that consumer spending continues in leisure throughout the economic cycle, but with a shift to quality and good value for money offers in tougher times. We believe that our properties are well positioned for this market. 2007 saw rental growth of 2.0% and occupancy stable at 96.7%.

Our **FIX** trade centres portfolio has shown rental growth of 3.3% for the year on a like-for-like basis. Vacancies which were not backed by rental guarantees fell from 7.6% to 5.2%. There is strong tenant demand for these properties which offer occupiers the potential for substantial profit on moderate rents.

Our **German portfolio** is producing a strong and stable cash flow, contributing £9.6 million to our recurring pre-tax profit from 22% of the portfolio. The German economy is performing well, and fears that the 3% increase in VAT in January 2007 would dampen the recovery of consumer spending appear to have been misplaced.

Property investment market

After a five year run in which our properties substantially increased in value, we saw a sharp correction in 2007, driven by a drop in confidence and tightening of credit conditions in the wider financial markets. Transactions were scarce, but valuers rapidly raised the yields in their valuations in line with market sentiment. Our portfolios have been affected by yield shift as follows:

Portfolio	**Equivalent* yield Dec 2007**	**C&R yield shift in 2007**	Equivalent* yield Dec 2005	Equivalent* yield Dec 2006
Mall	**5.69%**	**0.48%**	5.73%	5.21%
Junction	**5.32%**	**0.87%**	4.86%	4.45%
X-Leisure	**5.78%**	**0.09%**	6.32%	5.69%
FIX	**6.26%**	**0.54%**		5.72%
UK weighted average	**5.69%**	**0.55%**		5.14%
Germany**	**5.99%**	**(0.02)%**	6.60%	6.01%

* All equivalent yields are quoted on a nominated basis. This produces a lower figure than the true equivalent yield.
**Initial rather than equivalent yield.

Overall our UK portfolios fell in value by 10% in line with the IPD retail property index for the year. The German market showed slight yield compression in the first half of 2007, and largely stable yields in the second half. Our German portfolio, which now accounts for 22% of our total exposure, has shown a £9.6 million revaluation surplus for the year.

Portfolio performance

Almost all UK property portfolios will have had negative returns in 2007 due to adverse yield shift. Our portfolios have also suffered.

The Mall's direct management model once again outperformed the IPD shopping centre index by 1.0% (IPD quarterly total return) at ungeared level, adding to its five year track record of out performance.

The Junction underperformed the IPD retail parks index, partly because of the concentration of big box DIY anchors such as B&Q in its portfolio. It has also seen more adverse yield shift than the sector as a whole.

Portfolio performances	Geared return (IRR)	Ungeared return (IRR)	Benchmark return (IRR)
Mall 2005	22.8%	16.5%	16.3%
Mall 2006	26.3%	17.6%	12.7%
Mall 2007	**(13.2)%**	**(3.3)%****	**(4.3)%****
Junction 2005	34.1%	23.3%	22.1%
Junction 2006	18.3%	15.0%	14.7%
Junction 2007	**(34.0)%**	**(16.8)%**	**(9.6)%**
X-Leisure 2005	28.3%	15.3%	12.0%
X-Leisure 2006	30.4%	19.7%	12.0%
X-Leisure 2007	**(3.0)%**	**2.1%**	**12.0%**
German portfolio 2006	34.2%	15.2%	
German portfolio 2007	**16.2%**	**7.5%**	
FIX UK 2006	37.6%	20.8%*	
FIX UK 2007	**(32.9)%**	**(9.8)%***	

* LFL Return.
** IPD quarterly (total return).

Recognising market concerns

Over recent months we have been asked questions on the following issues, and we feel it is appropriate to address them within our results statement.

- **Fund redemptions:** some open ended property funds are suffering from equity redemptions which are forcing them to sell. All three Capital & Regional Funds are closed end and have long lives and therefore don't suffer this problem.
- **Defensive qualities of our portfolios:** we aim to invest in property which is dominant in its local market and where there is a ready market for tenants and customers. We manage it intensively and believe that such property is likely to trade relatively well in an economic downturn.
- **Performance fees:** the performance fee formula has earned us £161 million over the past five years to 30 December 2006 and we are expecting to repay up to £53 million as a result of the recent downturn in values.
- **Banking arrangements:** we are well aware of the potential impact of tightening credit conditions and falling property prices on our bank covenants. However at 30 December 2007 we had undrawn core revolving facilities of £114 million and were in compliance with all the financial covenants in our banking agreements. More information is given on page 25.

Outlook

The property market is expecting further downward movement in property values over the next few months, and stabilisation followed by moderate growth thereafter. The extent of this will depend on whether credit conditions ease and whether the problems in financial markets have a significant impact on consumer spending.

Our co-investing business model is capable of delivering enhanced returns throughout the property cycle. Valuations will rise and fall and with them the opportunity for earning performance fees. We have base fee and rental income which generates a recurring profit, and our specialist teams focused on well ordered portfolios have every chance of outperforming.

Financial review

This section considers:

- The 2007 results, focusing on our key performance indicators.
- Balance sheet, debt and hedging.
- Corporate structure and share buybacks.

The 2007 results

We lay out below the key performance indicators we use to monitor our financial performance, and explain them in the paragraphs that follow.

Key performance indicators

	2005	2006	**2007**
Scale of business:			
Property under management	£5.1bn	£6.5bn	**£6.1bn**
Investment returns			
Triple net diluted NAV per share	£9.85	£12.72	**£10.04**
Total return on equity	41%	32%	**(18)%**
Year end share price	£8.68	£15.42	**£3.92**
Total shareholder return	28%	81%	**(73)%**
Profitability			
Recurring pre-tax profit	£23.1m	£32.3m	**£32.7m**
Dividend per share	18p	26p	**27p**
Profit/(loss) before tax	£199m	£251m	**£(167)m**

Scale of the business

There were no major acquisitions during 2007. There was however significant asset management activity and recycling of capital as follows:

- The Mall acquired three neighbouring properties in order to advance asset management schemes, and spent £66 million on reconfigurations and redevelopments.
- Two significant disposals in the Junction Fund (at Wembley and Worcester) reduced the Fund's gearing.
- The completion of the sale of Star City by the X-Leisure Fund financed the acquisition of Cardigan Fields in Leeds and a commitment to buy a completed development in Bournemouth.
- X-Leisure acquired two of the three Xscapes from the partnerships that developed them. C&R's interest in the Fund increased from 10.6% to 19.4%.
- We acquired 25 properties in the FIX portfolio bringing the total to 49 properties valued at £170 million.
- We acquired six properties in Germany for £63 million increasing our portfolio to 50 properties, valued at £490 million, with total floor space of 469,000 sq m.

Portfolio movements 2007

	Acquisitions £m	Disposals £m	Revaluation movements £m	Exchange difference £m	Total £m
PUM at Jan 2007					6,457
Mall	145	–	(254)	–	(109)
Junction	68	(130)	(305)	–	(367)
X-Leisure	243	(86)	(17)	–	140
FIX UK portfolio	84	(1)	(24)	–	59
German portfolio	63	–	10	35	108
Joint ventures	42	(192)	(3)	–	(153)
Movement in 2007	645	(409)	(593)	35	
PUM at Dec 2007					**6,135**

Investment returns

Our revaluation deficit in 2007 was nearly identical to the surplus in 2006, supporting the view that 2006 was "a year too far". However, crucially for the future, our underlying profitability continues with recurring pre-tax profit of £32.7 million and has been further diversified due to the growth of our German portfolio.

Total returns

	2005 £m	2006 £m	**2007 £m**
Recurring pre-tax profit	23.1	32.3	**32.7**
Revaluation change	153.9	166.7	**(164.4)**
Performance fees	50.9	62.6	**(52.8)**
Other non-recurring items	(29.2)	(10.7)	**17.5**
Tax and reserves movements	4.4	(27.0)	**1.9**
Total returns	203.1	223.9	**(165.1)**
As % of opening equity	41%	32%	**(18)%**

The other non-recurring items are shown in detail in note 2 on pages 48 and 49. They include the mark to market of our interest rate swaps and the share of performance fee which we bear as investors in the funds.

During the same two year period our triple net NAV per share increased from £9.85 to £10.04. Our 2007 £167 million loss follows a four year period in which we made gains of £664 million.

Profitability

Our recurring pre-tax profit has remained stable at just under £33 million.

Recurring pre-tax profit

	2005 £m	2006 £m	**2007 £m**
Property investment UK	10.3	11.3	**10.2**
Property investment Germany	0.9	5.8	**9.6**
Managing property funds	10.2	13.4	**10.8**
SNO!zone	1.7	1.8	**2.1**
Recurring pre-tax profit	23.1	32.3	**32.7**

The German portfolio contributed £9.6 million, up from £5.8 million in 2006 due to the full-year effect of the Weigelt portfolio acquisition in 2006 and further investment in 2007.

The UK property investment business bore larger interest charges on borrowings to fund the equity we have invested in Germany as well as share buybacks. We estimate the impact of these two items at £2.9 million. Excluding these factors the profits from the UK portfolio grew during the year.

Dividend

Our dividend has tripled over the past four years in line with our recurring profits. This year's dividend distributes about 59% of our recurring pre-tax profits.

Dividend profile

	Actual 2005 pps	Actual 2006 pps	**Actual 2007 pps**
Interim	7	9	**10**
Final	11	17	**17**
Total	18	26	**27**
Increase	29%	44%	**4%**
% of recurring pre-tax profit	55%	58%	**59%**

Earnings businesses

SNO!zone

SNO!zone is the UK's premier real indoor snow slope operating business. With virtually no capital requirements, it has been generating strong cash flows and profits since 2001. During 2007 it traded from three locations in Milton Keynes, Castleford and Braehead and generated profit as follows:

SNO!zone
Profit and loss account

	2005 £m	2006 £m	**2007 £m**
Income	13.1	9.3	**14.3**
Operating expenses	(10.4)	(7.6)	**(11.5)**
Cash profit	2.7	1.7	**2.8**
Tenant incentives	(0.9)	–	**(0.7)**
Accounting profit	1.8	1.7	**2.1**

Capital & Regional Property Management (CRPM)

This company earns fees from managing our Funds and joint ventures and employs all our staff. Costs related to our own investment portfolio are allocated to the property investment business. The profitability of the fund management business (excluding the £6.5 million cost related to managing our own assets) can be summarised as follows:

Property management business
Profit and loss account

	2005 £m	2006 £m	**2007 £m**
Fixed fees	15.3	17.0	**18.6**
Service charge fees	3.9	4.6	**4.4**
Other fees	3.6	5.8	**3.0**
Fixed management expenses*	(12.6)	(14.0)	**(15.2)**
Profit from management fees	10.2	13.4	**10.8**
Performance fees	50.9	62.6	**(52.8)**
Variable overhead – bonuses, CAP, LTIP	(18.6)	(18.3)	**7.9**
Other non-recurring items	–	(2.1)	**–**
CRPM (loss)/profit before tax	42.5	55.6	**(34.1)**

* 30% (25% in 2005 and 2006) of overhead allocated to property investment business reflecting growth in FIX and Germany portfolios.

The profit from our Property Management business relates to long-term management contracts on The Mall, Junction and X-Leisure funds, expiring in 2016, 2011 and 2018 respectively. CRPM profit, from management fees, fell in 2007 for several reasons: the level of transactions fell, there were no major acquisitions or new Funds created and our management expenses were geared towards a growing portfolio.

Performance fees

CRPM receives performance fees from the Funds it manages on a complex formula designed to give us a share of the Fund's out performance over a three-year period compared to a defined IPD index and an absolute 12% hurdle return. Fees can be positive or negative, but negative fees are subject to a maximum amount.

Over the five years to 30 December 2006 we earned £161 million in performance fees. We took credit for the fees in the third and final year of each performance period and no credit was taken for the contribution positive past performance would make to performance periods ending in future years. Despite this carry forward, the unexpected and rapid drop in property values in the last quarter of 2007 resulted in a negative calculation for 2007, driven by a substantial gap between the 12% absolute performance hurdle and the negative geared returns in the Funds. The amount to be repaid is restricted to the amount paid in the previous two years. We have accounted for the full amount up to this maximum for both The Mall and The Junction.

- **The Mall:** we earned £36 million in 2006 which was paid by the Fund in December 2007. We expect to pay back £4 million in December 2008. A portion of the remainder will be repayable in December 2009 dependent on 2008 performance; the maximum amount will only be reached if there is more than 70bps further adverse yield shift. We have provided in full on this basis, although such a big shift is at the outer end of market expectations.
- **The Junction:** we earned £16.6 million during 2006, but when it was due in December 2007 we postponed payment because it was becoming clear that much of it would be repayable – £14 million in December 2008 – and the balance in December 2009. We do not expect to make any further payments.
- **X-Leisure:** we earned a performance fee of £5.3 million for 2007, but no credit has been taken for this amount due to the likelihood of clawback.

Please see contingent liability note 36 on page 75.

Performance fee history

	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	**2007 £m**	**Recognised in 2007 £m**
Mall	3	11	23	30	36	**(4)**	**(36)**
Junction	–	2	7	17	17	**(14)**	**(17)**
X-Leisure	–	–	1	4	10	**–**	**–**
Total	3	13	31	51	63	**(18)**	**(53)**
Less backcharge – C&R share as investor							**18**
Less net adjustment to management incentives							**8**
NAV effect £m							**(27)**
NAV effect £ per share							**(0.38)**

The impact on C&R is mitigated by the benefit it receives from claw back as an investor and by the adjustment to management incentives. The net impact on NAV is shown above at 38p per share.

Financial review continued

Balance sheet, debt and hedging

Three balance sheet presentations

We look at our balance sheet in three ways:

- The enterprise balance sheet shows everything we manage.
- The "see through" balance sheet shows our share of each portfolio.
- The statutory balance sheet net of fund and JV debt, as required by the accounting rules.

Three balance sheets at 30 December 2007

Funds	Enterprise £m	See through £m	Statutory £m
Mall	3,111	754	344
Junction	1,197	327	166
X-Leisure	945	183	90
Other portfolios			
Trade Parks	169	169	169
Germany	490	452	490
Joint ventures			
Xscape Braehead	72	36	5
Manchester Arena	67	19	5
Cardiff	29	14	(1)
Wholly owned			
Hemel Hempstead	17	17	17
Great Northern	95	95	95
Total property	**6,192**	**2,066**	**1,380**
Working capital etc.	45	(29)	(52)
Debt	(3,586)	(1,334)	(625)
Net assets	**2,651**	**703**	**703**
C&R shareholders	703	703	703
Fund investors	1,948		
Total equity	**2,651**	**703**	**703**
Leverage (LTV)	58%	65%	45%

Note: This table shows accounting figures, which treat head leases and tenant incentives differently. They differ from the valuation figures shown in note 13b on page 58.

The key judgements in our balance sheet relate to:

- **Property valuations:** all of which are carried out by independent valuers.
- **Development issues:** it often takes some years after a development is completed before all commercial issues are resolved.
- **Tax provisioning:** judgement is needed on the correct level of provisioning for tax payable over "open" years where the final figures have not yet been agreed with the tax authorities.
- **Performance fee accounting:** where events over a five-year period can affect the amount earned in any one year, and some judgement about future performance is required.

Debt

Our Group debt was £625 million at the year end. The formation of the FIX Fund reduces this to £472 million. In addition our £709 million share of non-balance sheet debt is disclosed in the table below.

Debt at 30 December 2007

	Debt £m	Average interest rate %	% Fixed	Duration of fixing (months)	Duration to loan expiry (months)
Core revolving credit facility	61	5.69	107%	24	38
Great Northern debt	69	5.70	100%	34	34
Hemel Hempstead debt	12	5.52	100%	9	21
Victoria debt	8	7.48	–	–	22
FIX UK	120	6.49	72%	39	83
Germany	355	4.68	100%	44	44
Group debt*	625	5.28	94%	39	49
JV debt (our share)	55	6.38	68%	45	51
German minorities	(29)	4.68	100%	44	44
Mall (24.2% share)	412	5.48	74%	52	52
Junction (27.3% share)	177	5.35	90%	49	39
X-Leisure (19.4% share)	94	6.06	81%	33	46
Off balance sheet debt	709	5.63	77%	49	51
Total see through debt	1,334	5.46	85%	44	50

* Before loan amortisation costs.

The main reason for the increase in our balance sheet debt from £457 million to £625 million is the building up of the FIX and German portfolios.

- Our German portfolio supports £355 million of debt, which is non-recourse to the UK Group. This portfolio has strong cash flows secured on good covenants and values have been stable. The cash flows are fully able to support the debt, which stands at 72% LTV.
- The FIX portfolio has become a Fund since the year end, removing £120 million of debt from our balance sheet and adding £33 million of cash for the sale of 80% of the equity. We remain exposed to 20% of the bank debt on a see through basis.

The remaining £150 million is supported mainly by the recurring cash flows from Great Northern, fund units, CRPM and SNO!zone.

We have very little debt falling due for refinancing over the next two years, although we plan to extend the £8.4 million debt secured on 10 Lower Grosvenor Place, London, SW1, this year.

Treasury statistics

Treasury statistics (see through basis)

	2005	2006	**2007**
Year-end debt			
• Balance sheet debt*	£396m	£457m	**£625m**
• C&R share of all debt	£892m	£1,138m	**£1,334m**
% of debt with fixed or swapped interest rates	75%	82%	**85%**
Weighted average duration of hedge (months)	52	48	**44**
Weighted average interest rate %	5.10%	5.23%	**5.46%**
Weighted average interest margin %	0.74%	0.67%	**0.71%**
Interest cover (Recurring PBIT/I)	1.54	1.58	**1.48**
% of net Euro denominated assets hedged	75%	75%	**66%**
Fair value of interest rate swaps (before tax)	(6.5)	17.0	**11.8**
Fair value of fixed loans (before tax)	0.5	3.1	**4.4**

* Before loan amortisation costs.

We continue to hedge a large portion of our exposure to interest rate and currency movements. Interest rate swaps cover 85% of our borrowings for an average duration of 44 months on a see through basis. A forward exchange contract covers 66% of the net asset exposure of the German portfolio which is denominated in euros.

Average interest costs rose slightly at the year end due to a short-term rise in LIBOR, reflecting tight credit conditions in the banking market.

Cash and debt management

At the year end, we had £37 million in cash and £114 million available in undrawn core revolving credit facilities. This availability or "headroom" increased with the formation of the FIX Fund, which generated cash of about £33 million.

Our wholly-owned properties are financed with conventional secured debt. We use our central revolving credit facility to fund fluctuations or shortfalls. If there is a shortage of cash or covenants are tight in these portfolios, we have the option of injecting equity.

Joint ventures normally have their own debt. The owners (including C&R) give limited guarantees for cost over-runs and interest shortfall but not for the principal owing.

Fund cash is managed entirely separately from C&R's own money. Fund banks rely on the portfolios to support the debt rather than the property manager (C&R) or the Fund Manager (Morley Fund Management/Hermes).

Financial covenants

At the year end we complied with all our financial covenants. The most important covenants relate to the interest cover ratio (ICR) which should not fall below a certain level. This level ranges from 100% to 160% depending on the characteristics of the portfolio.

We also have covenants relating to the Loan to Value ratio, (LTV covenants) which must not be allowed to rise above a certain level. Our LTV covenants were met without difficulty at the year end.

Fund debt

The three Funds each have their own financial covenants. More significant than the bank covenants however, is the desire of the institutional investors who invest in our Funds to limit leverage to 60% LTV in the case of The Mall and Junction funds and 70% in the case of X-Leisure.

Further decreases in asset values will put pressure on these covenants. The funds have a number of options including realisation of assets to ensure they remain within the agreed covenants.

The Mall Fund has issued £1.4 billion in Mall bonds, which have an ICR covenant at 130% but no direct LTV covenant. The ICR is currently 170-180%, comfortably over the limit. The interest rate on these bonds is advantageous in current market conditions, and it is a priority not to breach any of the covenants associated with it.

Corporate structure and share buybacks

Tax

Our corporate structure remains tax efficient under current legislation. During 2007 we have minimal UK tax payable. We have tax losses arising from the negative performance fees of around £40 million which may be available for offset against future profits, but we haven't carried a deferred tax asset for this.

In Germany we currently pay minimal cash tax but provide deferred tax at about 16% on tax depreciation allowances and revaluations.

Returning capital

During summer 2007 we returned £28 million of capital through the repurchase of 1,575,000 CULS and 1,442,598 shares. This continued the Company's long track record of buying back shares when the opportunity arises. Since 2000, we have spent £198 million on share and CULS buybacks, while expanding the property under management from £1.1 billion to £6.1 billion.

In September 2007, we served notice on the holders of the last 0.1 million CULS to force conversion into C&R shares. At the year end no CULS were outstanding.

William Sunnucks
Group Finance Director
10 April 2008

Directors

Executive Directors

Hugh Scott-Barrett, Chief Executive, 49
Hugh has been Chief Executive since 1 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.

Martin Barber, Chief Executive, 63 (retired 31 March 2008)
Member of Nomination Committee
Martin was a founder director of the Company in 1979 and has been involved in commercial property as a developer and investor for over 30 years. Martin was, until March 2006, co-Chairman of CenterPoint Properties Trust, a real estate investment trust, listed on the New York Stock Exchange and formerly a subsidiary of Capital & Regional. On 31 March 2008, Martin stepped down as Chief Executive and retired from the Board.

William Sunnucks MA ACA, Finance Director, 51
Member of Responsible Business Committee
William was appointed Group Finance Director in October 2002. He has been Finance Director of a number of large companies, including Securum International and English, Welsh and Scottish Railways. He is a chartered accountant and has an MBA from the London Business School. William has responsibility for the Group's finances, including funding, reporting and financial control.

Xavier Pullen, Deputy Chief Executive, 57
Member of Responsible Business Committee
Xavier was a founder director of the Company in 1979 and has been active in the property industry for over 30 years. Xavier focuses primarily on the supervision of the Group's fund management business together with the co-ordination of all property matters and the development of new business initiatives including Germany. He also has responsibility at Board level for The Junction and FIX UK.

Kenneth Ford BSc FRICS, Managing Director of Shopping Centres, 54
Ken has been a director of Capital & Regional since 1997 and, as Chief Executive of The Mall, is responsible for the fund's shopping centre portfolio. Ken has been involved in commercial property for over 30 years.

PY Gerbeau, Managing Director of Leisure, 42
PY was appointed to the Board in 2003, and as Chief Executive of X-Leisure in the same year. He has over 15 years' experience in the leisure industry. PY's career to date has included Vice President of Park Operations at Disneyland Paris and Chief Executive of the Dome. PY has an MBA from one of France's leading business schools, teaches on the MBA programme at the London Business School and has a Chair of Entrepreneurship at the Imperial College, running a module on the Experienced Economy and Corporate Rescue.

Non-executive Directors

Tom Chandos, Chairman, 55
Chairman of Nomination Committee
Tom is Chairman of Invista European Real Estate Trust and Queen's Walk Investment. He is also on the board of a number of private companies. In addition to his board positions, he has worked in investment banking and alternative investment areas such as venture capital and hedge funds. He is a Labour member of the House of Lords. He was appointed as a director of the Company in 1993 and as Chairman in 2000.

Hans Mautner, Non-executive, 70
Member of Nomination Committee
Hans is President of the International Division of Simon Property Group (SPG), the world's largest publicly traded retail real estate company. In addition, Hans is Chairman of Simon Global Limited, SPG's London-based entity. He is also a director of a number of Dreyfus Corporation managed funds and a member of Lehman Brothers' European Real Estate Private Equity Advisory Council. Hans was appointed as a director of the Company in 2003.

Paul Stobart, Non-executive, 50
Chairman of Audit Committee and member of Remuneration and Nomination Committees
After qualifying as a chartered accountant with Price Waterhouse, Paul spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined The Sage Group plc in 1996 as Business Development Director, becoming Chief Executive Officer, UK and Ireland, in 2003. Paul was appointed as a director of the Company in 2003.

Alan Coppin, Non-executive, 57
Chairman of Responsible Business Committee and member of Audit Committee
Alan is currently Chairman of Redstone plc, the telecoms and IT solutions provider and a non-executive director of both Berkeley Group Holdings plc, the urban regenerator and residential developer, and Air Command (Royal Air Force). His previous positions have included being Chief Executive of Wembley plc and, in the charity sector, Chairman of The Prince's Foundation for the Built Environment. Alan was appointed a director of the Company in 2004.

Philip Newton, Non-executive, 59
Member of Remuneration Committee
Philip is the former CEO of Merchant Retail Group plc, owners of The Perfume Shop, a 150-store chain that he developed from its beginnings. He is Chairman of Windsor Vehicle Leasing Ltd, 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.

Manjit Wolstenholme, Non-executive, 43
Chairman of Remuneration Committee and member of Audit and Nominations Committees
After qualifying as a Chartered Accountant with Coopers & Lybrand (now part of PricewaterhouseCoopers) Manjit spent 13 years at Dresdner Kleinwort Wasserstein, latterly as co-Head of Investment Banking, where she was responsible for managing the division as well as advising clients on a wide range of transactions. She is now a consultant to Gleacher Shacklock, a privately-owned investment banking firm specialising in high level mergers, acquisitions and strategic advice. Manjit was appointed as a director of the Company in 2006.

Directors' report

Introduction

The directors present their report together with the audited financial statements for the year ended 30 December 2007.

Results and proposed dividends

The consolidated income statement is set out on page 40 and shows a loss on ordinary activities after taxation of £166.8 million (2006: £222.3 million profit).

The directors recommend the payment of a final dividend of 17p per ordinary share on 13 June 2008 to members on the register at the close of business on 18 April 2008, which together with an interim dividend of 10p per ordinary share, paid in 2007, makes a total dividend of 27p per share for the year.

Principal activities, trading review and future developments

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

A review of the activities and prospects of the Group is given in the Chairman's statement, on page 19 and the operating and financial review on pages 20 to 25.

Business review

The information that fulfils the requirements of the Business Review including key performance indicators can be found on pages 2 to 18 which is incorporated in this report by reference.

Post balance sheet events are set out in note 37 on page 75.

More detail on the financial risks facing the Company is set out in note 25 on page 67.

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

Directors

The directors of the Company during the period were: M Barber (retired 31 March 2008), T Chandos, A Coppin, K Ford, PY Gerbeau, A Lewis-Pratt (retired 28 June 2007), H Mautner, X Pullen, P Stobart, W Sunnucks, P Newton and M Wolstenholme. H Scott-Barrett was appointed to the Board on 1 April 2008.

In accordance with the Articles of Association, A Coppin, K Ford and X Pullen will retire from the Board by rotation and offer themselves for re-election. H Scott-Barrett, 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 4,328,323 issued shares representing 6.09% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report on page 36.

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

Share options

Details of outstanding share options granted to the directors under the 1998 Share Option Schemes, are disclosed in the directors' remuneration report on page 36.

Substantial shareholdings

In addition to the interests of the directors, the Company has been notified pursuant to Section DTR5 of the FSA Disclosure & Transparency Rules of the following notifiable interests in its issued share capital as at 31 March 2008 (the latest practicable date prior to the issue of this report):

Fund Manager	Number of shares	%
Morgan Stanley Investment Management	6,527,683	9.19
Neuberger & Berman	3,963,828	5.58
Fidelity Investments	3,736,528	5.26
Legal & General Investment Management	3,394,551	4.78
RMB Asset Management	3,293,467	4.64
United Nations Pensions	3,270,000	4.60
Barclays Global Investors	2,453,658	3.45
Martin Barber	2,385,367	3.36
Dimensional Fund Advisors	2,364,455	3.33
Algemene Pensioen Groep (formerly ABP Investments)	2,324,656	3.27

Purchase of own shares

The Company undertook a limited share buyback programme in June and July 2007, under the authority granted by the shareholders at the Annual General Meeting on 11th June 2007, at which the Company was given authority to purchase up to 10,785,920 of its ordinary shares of 10p each. During the year ended 30 December 2007, the Company made on-market repurchases totalling 1,442,598 of its own ordinary shares, representing 1.99% of the issued share capital, for an aggregate consideration of £16,993,325.79. The repurchased shares were cancelled. The present authority for the Company to purchase its own shares will expire at the Annual General Meeting to be held on 2 June 2008. The directors will seek fresh authority for the Company to purchase its own ordinary shares.

Capital structure

The Company has one class of ordinary shares with equal voting rights. In addition, the trustees of the Long Term Incentive Share Scheme have the right to vote on behalf of the Company's employees.

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

The asset management agreements the Company has in respect of its three funds can be terminated by the fund partnerships 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 30% or more of its issued share capital being held by or on behalf of a single entity or group if, in addition, one half or more of its executive directors over the previous 12 months cease to be the executive directors.

Directors' report continued

A similar definition applies to the £175 million bank facility with HBOS. The 30% change of control provision differs and requires that more than 50% of the directors at February 2006 cease to be directors, or to constitute 50% of the Board. If this occurs the loan would be repayable.

Use of financial derivatives

The use of financial derivatives is set out in note 25 on page 67.

Charitable donations

The main thrust of our charitable support is at local level through our fund investments as described on page 18. At Group level we have made small donations during the year totalling £18,364 (2006: £12,500).

Payment of suppliers

The policy of the Company is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed, the Company endeavours to make payment within one month of the receipt of the goods or service. At the year end, the Company had an average of 14 days (2006: 28 days) purchases outstanding.

Compliance with combined code

A statement on corporate governance is set out on pages 37 to 39.

Responsible business

The responsible business statement is set on page 16 to 18.

Employees

The Company 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 Company that cannot be justified as necessary on operational grounds.

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

Stakeholder pensions

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

Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan, under which shareholders can use their cash dividends to buy more shares in the capital of the Company. The plan is available to all shareholders. Details of the terms and conditions of the Dividend Reinvestment Plan can be obtained by contacting the Company Secretary at the registered office. The timetable for the 2007 final dividend is set out on page 89.

Registered office

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

Auditors' information

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

- So far as the director is aware, there is no relevant audit information of which the company's 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.

Explanation of business to be conducted at the Annual General Meeting

Resolutions 1 to 9 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.

The directors consider that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Board unanimously recommends that you vote in favour of the resolutions.

Ordinary resolutions

Resolution 1 – Accounts and reports

Company law requires the directors to present to the meeting the audited annual accounts and the directors' and auditors' report for the year ended 30 December 2007.

Resolution 2 – Declare a dividend

The resolution proposes to declare a final dividend of 17p per share on the ordinary shares of the Company for the year ended 30 December 2007. This is proposed to be paid on 13 June 2008 to members on the register at the close of business on 18 April 2008, which together with an interim dividend of 10p per ordinary share, paid in 2007, makes a total dividend of 27p per share for the year.

Resolutions 3 to 6 – Re-appointment of directors

In accordance with the Articles of Association, A Coppin, K Ford and X Pullen will retire from the Board by rotation and offer themselves for re-appointment. In accordance with the Articles of Association H Scott-Barrett, who having been appointed by the Board would vacate office at the conclusion of the AGM also offers himself for re-appointment. The Chairman has confirmed that A Coppin's performance continues to be effective and he demonstrates commitment to the role and that he should therefore be put forward for re-appointment at the AGM.

Biographical details of all the directors standing for election appear on page 26 of the report. The Board recommends that you support the election of each of the retiring directors standing for election.

Resolution 7 – Re-appointment 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. This resolution seeks shareholder approval to re-appoint Deloitte & Touche LLP as the Company's auditors and seeks authority for the Company's directors to fix their remuneration.

Resolution 8 – Directors' remuneration report

The resolution proposes that the directors' remuneration report for the year ended 30 December 2007 be approved by the meeting. The report is set out in pages 31 to 36 of this report.

Resolution 9 – Directors' authority to allot securities

Section 80 of the Companies Act 1985 requires shareholders' authority for the directors to allot new shares or convertible securities, other than shares which may be allotted under employee share schemes. Under resolution 9, which is proposed as an ordinary resolution, the directors seek authority to allot shares up to an aggregate nominal value of £2,372,464, representing one-third of the nominal value of the Company's share capital in issue at 9 April 2008 (being the last practicable date prior to the publication of this report). The authority will expire at the conclusion of the Company's AGM in 2009. This authority complies with guidelines issued by institutional investors. The directors have no immediate plans to make use of this authority. As at the date of this report the Company does not hold any ordinary shares in the capital of the Company in treasury.

Special resolutions

Resolution 10 – Pre-emption rights

Under section 89 of the Companies Act 1985, when new shares are allotted or treasury shares are sold for cash, they must first be offered to existing shareholders pro rata to their holdings. This special resolution renews, for the period ending on the date of the next Annual General Meeting, the authorities previously granted to the directors to: (a) allot shares of the Company 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 £355,870 (representing in accordance with institutional investor guidelines, approximately 5% of the share capital in issue as at 9 April 2008 (being the last practicable date prior to the publication of this report)) as if the pre-emption rights contained in section 89 did not apply. The directors have no immediate plans to make use of these authorities.

Resolution 11 – Authority to purchase own shares

At the last AGM in 2007, the Company was granted authority to make purchases in the market of its own shares, subject to specified limits. This authority, which has not as yet been fully exercised, expires at the conclusion of the Company's 2008 AGM. Therefore by resolution 11, it is proposed as a special resolution that this authority in respect of the Company is renewed.

The power is limited to a maximum aggregate number of 10,604,916 ordinary shares (representing 14.9% of the issued share capital as at 9 April 2008 (being the latest practicable date prior to publication of this report)) and details the minimum and maximum prices that can be paid, exclusive of expenses. This resolution authorises the Company to pay a maximum price for an ordinary share that is an amount equal to the higher of: (i) 105% of the average market price for an ordinary share for the five dealing days preceding any such purchase; or (ii) the higher of the last independent trade for an ordinary share and the highest current independent bid for an ordinary share as derived from the trading venue where the purchase is carried out. The authority conferred by this resolution will expire at the conclusion of the 2009 AGM or 15 months from the passing of this resolution, whichever is the earlier.

The shares repurchased by the Company under the renewed authority would either be cancelled or held as treasury shares. No dividends may be paid on shares which are held as treasury shares and no voting rights are attached to them. Once held in treasury, treasury shares may be cancelled, sold for cash or used for the purpose of employee share schemes. The Company currently holds no shares in treasury.

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 asset value per share and would benefit shareholders generally.

The total number of options to subscribe for new ordinary shares in the Company as at 9 April 2008 was 315,000 representing 0.44% of the Company's issued share capital as at 9 April 2008. Such number of options to subscribe for new ordinary shares would represent approximately 0.52% of the reduced issued share capital of the Company assuming full use of the authority to make market purchases sought under resolution 11.

Resolution 12 – Amendments to the Company's Articles of Association – Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles of Association contain a provision to this effect. The Companies Act 2006 also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. Resolution 12, proposed as a special resolution, will, if passed, amend the Articles of Association of the Company to include such provisions. The amended Articles of Association will give the directors authority to approve such situations and will include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. Firstly, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the amended Articles of Association should contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the situation giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively.

Resolution 13 – Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. Resolution 13, which is proposed as a special resolution, will allow the Company to take advantage of the new provisions relating to website communications and permit the Company to use website communication as the

Directors' report continued

default position without sending documents to shareholders. 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.

By order of the Board

F Desai
Company Secretary
10 April 2008

Statement of directors' responsibilities

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

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

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

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

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

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

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

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

Directors' remuneration report

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee appointed by the Board, consisting entirely of non-executive directors. Throughout the year, the members were M Wolstenholme (Chairman), P Newton and P Stobart. The terms of reference of the Remuneration Committee are available for inspection on the Company'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 Long Term Incentive Plan and Capital Appreciation Plan. Advice from independent external advisers is obtained when required but none was considered necessary during 2007. Since the year end, the Committee has sought advice from PricewaterhouseCoopers in respect of the Company's incentive schemes going forward as the current schemes expire at this year's AGM.

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 are set with reference to the FTSE 350 Real Estate comparative group. The executive directors have not received a salary increase since 2005 as there has been a focus on performance pay and not a fixed base rate.

Annual bonus scheme

The Committee may award cash bonuses to executive directors up to 100% of salary based on the Committee's independent assessment of the Company's 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), team building (indicated by low staff turnover and progress in developing key individuals) and financial control (adequate reporting, systems and procedures). No bonuses were awarded to the executive directors for 2007 due to the poor financial performance.

Incentive schemes

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

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

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

The terms of the LTIP permit the Committee to make conditional awards of shares to participants annually with a market value not exceeding 100% of the participants' basic salary. All the executive directors together with other key executives of the Company are participants in the LTIP. 200,794 shares were conditionally awarded to the participants in 2007.

All LTIP awards are subject to meeting performance conditions in order to incentivise and retain key executives to increase the return on capital by aligning their interests with those of the shareholders of the Company. Details of the awards made in 2007 and a summary of the performance conditions are set out under the heading "Long Term Incentive Plan" below.

All key executives including the executive directors are participants in the CAP. The terms of the CAP permit the Committee to make awards to the participants annually that will entitle them to receive payments in aggregate of up to 30% of the performance fees receivable by the Company from The Mall, Junction and X-Leisure Funds. The performance fees are subject to rigorous performance conditions and thus the CAP payments are indirectly subject to the performance fee. To the extent that awards ultimately vest, the individual entitlements are reduced by 80% of the initial value of the shares awarded under the LTIP. No CAP awards were made for 2007 to any participants.

Pension arrangements

The Company makes contributions, at proportional rates to basic salary, to defined contribution pension schemes of each executive director's choice, except in the cases of M Barber, X Pullen and A Lewis-Pratt, where salary supplements of £56,738; £48,404 and £17,452, in lieu of pension contributions, were paid to them respectively.

Other benefits

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

Service contracts

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

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

M Barber	28 October 1993
X Pullen	28 October 1993
K Ford	17 May 1996
A Lewis-Pratt	20 January 1998
W Sunnucks	15 October 2002
PY Gerbeau	14 April 2003
H Scott-Barrett	9 March 2008

Directors' remuneration report continued

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

W Sunnucks is the Chairman of Land Management Limited, a family-run company. X Pullen is a non-executive director for Brandeaux, a privately owned fund management group. The Company does not consider that these appointments involve significant commitment nor that the roles conflict with their duties to the Company. Any earnings received from these appointments are kept by the individuals concerned and have not been disclosed to the Company.

During the year, A Lewis-Pratt took early retirement from the Board on grounds of ill health. He received a compensation payment of £186,000. Andrew Lewis-Pratt was considered to be a "good leaver" for the purposes of the Company's incentive schemes. Accordingly, he will be eligible to receive awards that vest in respect of the LTIP and CAP schemes for 2005 and 2006, subject to the attainment of the relevant performance conditions.

On 31 March 2008, M Barber retired as Chief Executive. He received a compensation payment of £732,000. Martin Barber was considered to be "good leaver" for the purposes of the Company's incentive schemes. Accordingly, he will be eligible to receive a time pro-rated vesting of the awards under the LTIP scheme for 2005, 2006 and 2007. He will also be eligible to receive awards under the CAP for 2005 and 2006. Both awards are subject to the attainment of the relevant performance conditions.

One-off award to H Scott-Barrett

As announced to the Stock Exchange on 10 March 2008 the Company has recruited H Scott-Barrett to take up the position of Chief Executive. H Scott-Barrett took up this appointment on 1 April 2008.

As part of the negotiation to secure H Scott-Barrett's appointment and also for H Scott-Barrett 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.

Summary of the terms of the Matching Share Agreement (the "Agreement")

General

The 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.

Acquisition of shares

Under the 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 Company'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 the performance condition described below ("Match 2"); plus
- Up to one further share in the Company subject to a tougher performance condition described below ("Match 3").

Conditions

The vesting of all Matching Shares is subject to H Scott-Barrett remaining in employment with the Group during the Vesting Period (subject to the specified exceptions referred to below) and not transferring or otherwise disposing of the Acquired Shares during that period.

100% of Match 2 will vest if the Company's total shareholder return ("TSR") is at least equal to the upper quartile of the TSR performance of the constituent companies of the FTSE Real Estate sector. 20% of Match 2 vests for median performance and between median and upper quartile vesting is on a straight-line basis. In addition, none of Match 2 will vest unless the Company's TSR is at least 8% per annum over the Vesting Period.

100% of Match 3 will vest if the Company's TSR is at least equal to the upper decile of the TSR performance of the constituent companies of the FTSE Real Estate sector. Match 3 does not vest for performance below upper decile. In addition, none of Match 3 will vest unless the Company's TSR is at least 15% per annum over the Vesting Period.

Rights over shares

H Scott-Barrett retains the right to vote the Acquired Shares and to receive any dividends or other distributions which may be made in respect of the Acquired Shares.

H Scott-Barrett has no rights over Matching Shares unless and until they vest. Dividend equivalents are not paid on Matching Shares which vest.

Cessation of employment

If H Scott-Barrett dies before the end of the Vesting Period, his personal representatives are entitled to the Matching Shares in full. If H Scott-Barrett ceases to be employed within the Group by reason of injury, disability, redundancy, retirement, or because the business for which he works ceases to be part of the Group, or if he is dismissed without cause or constructively dismissed the Matching Shares shall vest as follows:

- Match 1 – in full, regardless of when the cessation of employment occurs.
- Match 2 and Match 3 – if the cessation occurs before 9 March 2009, up to one third may vest but subject to the relevant performance target. If cessation occurs on or after 9 March 2009, the vesting level will taking into account the time elapsed since award and the extent to which the relevant performance target has been met.

If H Scott-Barrett leaves employment before the end of the Vesting Period for any other reason the Matching Shares will lapse although the Trustee may, at its discretion (with the written consent of the Board), determine that some or all of the Matching Shares shall vest.

Takeover, reconstruction and demerger

In the event of a takeover, reconstruction or winding-up of the Company during the Vesting Period, the Matching Shares will vest on the same basis as would apply on a cessation of employment by reason of injury, disability and redundancy.

In the case of a demerger the Trustees can determine that the Vesting Period ends for some or all of the Matching Shares and determine the extent to which those shares vest.

General

Benefits under the Agreement are not pensionable.

If there is a rights issue or similar variation of capital the Trustee can take up the rights attaching to the Matching Shares as H Scott-Barrett may direct. Any additional shares are held and released with the corresponding Matching Shares.

Non-executive directors – remuneration

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

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

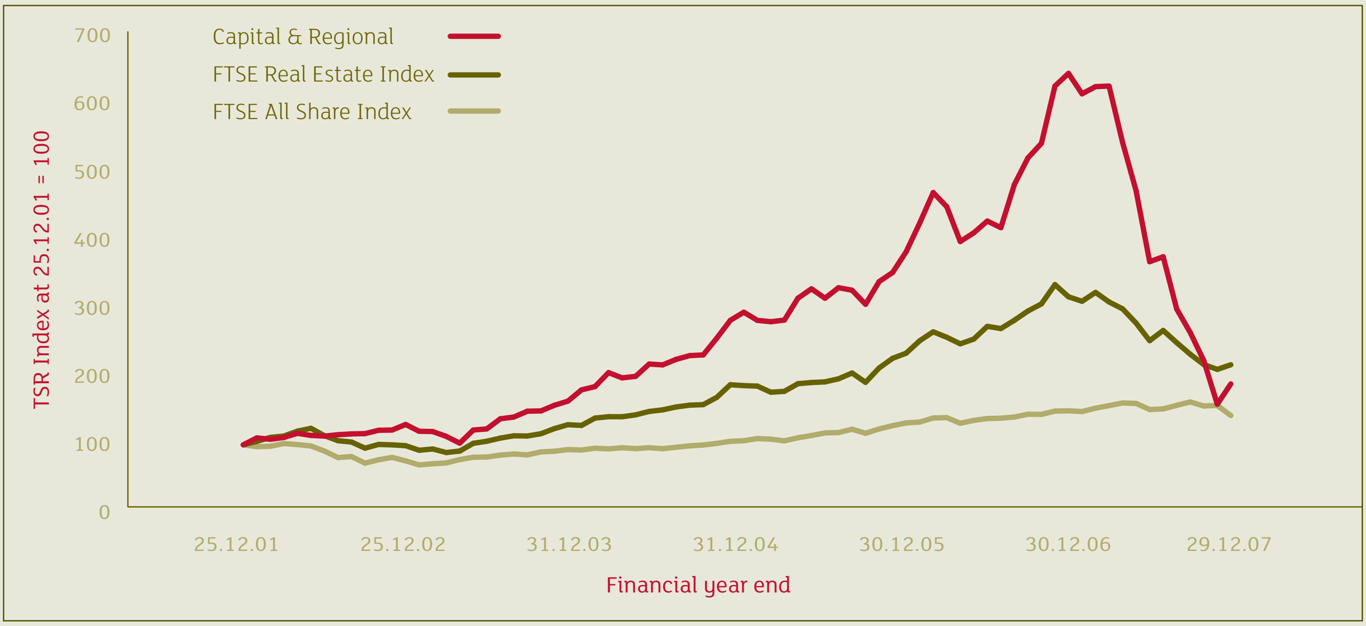
The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes.

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

Their remuneration comprises a standard director's fee and a fee 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 Company to that director from time to time. Details of the non-executive directors' fees are set out on page 35.

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. As the Company is a constituent of the FTSE Real Estate Index, this index is considered by the Board to be the appropriate comparator for this purpose. Performance is measured by total shareholder return (share price growth plus dividends paid).



Directors' remuneration report continued

Audited information

Long Term Incentive Plan

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

	LTIP awards outstanding as at 30 December 2006	Date of award	Market price on date of award (p)	Market price on date of vesting (p)	End of qualifying period	**LTIP awards outstanding as at 30 December 2007**
M Barber	55,000[1]	20/04/04	500.0	1,530.0	31/12/06	**–**
	39,702	08/07/05	806.0		31/12/07	**39,702**
	28,700	28/04/06	1,115.0		31/12/08	**28,700**
	20,500	23/04/07	1,561.0			**20,500[2]**
X Pullen	52,000[1]	20/04/04	500.0	1,530.0	31/12/06	**–**
	33,871	08/07/05	806.0		31/12/07	**33,871**
	24,484	28/04/06	1,115.0		31/12/08	**24,484**
	17,489	23/04/07	1,561.0			**17,489[2]**
W Sunnucks	40,000[1]	20/04/04	500.0	1,530.0	31/12/06	**–**
	26,055	08/07/05	806.0		31/12/07	**26,055**
	18,834	28/04/06	1,115.0		31/12/08	**18,834**
	13,453	23/04/07	1,561.0			**13,453[2]**
K Ford	50,000[1]	20/04/04	500.0	1,530.0	31/12/06	**–**
	32,568	08/07/05	806.0		31/12/07	**32,568**
	23,542	28/04/06	1,115.0		31/12/08	**23,542**
	16,816	23/04/07	1,561.0			**16,816[2]**
PY Gerbeau	45,000[1]	20/04/04	500.0	1,530.0	31/12/06	**–**
	32,568	08/07/05	806.0		31/12/07	**32,568**
	23,542	28/04/06	1,115.0		31/12/08	**23,542**
	16,816	23/04/07	1,561.0			**16,816[2]**
A Lewis-Pratt	45,000[1]	20/04/04	500.0	1,530.0	31/12/06	**–**
	32,568	08/07/05	806.0		31/12/07	**32,568**
	23,542	28/04/06	1,115.0		31/12/08	**23,542**
	–	23/04/07	1,561.0			**–**

1 Awards vested and exercised during 2007
2 Shares awarded in 2007

A total of 417,335 shares awarded in 2004 vested during the year. All directors exercised their 2004 award. In addition, during the year 115,720 shares were awarded to key executives at 1561.0p; total conditional awards held by key executives at 30 December 2007 amounted to 365,609 shares. The outstanding LTIP awards are summarised in note 26.

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

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

ROE: The extent to which 50% of the shares conditionally awarded in 2007 will vest is determined by reference to the level of the Group's average post-tax return on equity (ROE) for the financial years ended 30 December 2007, 2008 and 2009 (the performance period). None will vest if the ROE is less than 10%; 20% of the shares will vest if the ROE is 10%; 100% of the shares will vest if the ROE is 18% or above. If the ROE falls between 10% and 18% the percentage of shares will vest at an incremental rate.

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

TSR: The other 50% of the shares conditionally awarded in 2007 will vest according to total shareholder return (TSR) over the three-year performance period relative to the FTSE Real Estate Index whereby:

i) If TSR is below the median, no shares in an award will vest;

ii) If TSR is above the median, 25% of the shares in an award will vest;

iii) If TSR is in the upper quartile, 100% of the shares in an award will vest; and

iv) If TSR is between median and upper quartile the shares will vest pro rata.

The Remuneration Committee has been independently advised on the above TSR vesting conditions. The Board has had advice that measurement against TSR provides significant performance incentive and is in line with best market practice.

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

Any awards made prior to 2005 will only have to satisfy the ROE performance condition. Awards made in 2005, 2006 and 2007 have to satisfy both the ROE and TSR performance conditions. The Remuneration Committee has exercised discretion to adjust the total return calculation to eliminate the effect of the CULS premium write-off because, in their view, the CULS buybacks enhanced shareholder value at that time.

The potential value of the awards made is the number of shares multiplied by the current share price. The purpose of the scheme is to enable executive directors and other key employees to build up long-term shareholdings in the Company and thereby further align their interests with those of the Company's shareholders.

Capital Appreciation Plan

The Remuneration Committee decides the total amount of the CAP awards based on a proportion of the performance fees earned from the fund management contracts. Under these contracts CRPM is paid a performance fee based on a share of the out-performance over and above certain benchmarks as described on page 23.

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

No awards have been made to the directors and senior management in respect of the performance fees receivable by the Group in respect of the financial year 2007.

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

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

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

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

	Salary and fees £000	Discretionary bonus £000	Compensation payment £000	Pension contributions £000	Other benefits £000 (a)	2004 CAP payment £000 (b)	**2007 Total £000**	2006 Total £000
Executive Directors								
M Barber	320	–	–	57*	27	970	**1,374**	1,101
X Pullen	273	–	–	48**	21	903	**1,245**	977
K Ford	263	–	–	39	21	1,068	**1,391**	1,176
A Lewis-Pratt	131	–	186	17***	12	990	**1,336**	879
W Sunnucks	210	–	–	32	21	700	**963**	574
PY Gerbeau	263	–	–	–	21	479	**763**	587
Non-executive directors								
T Chandos	125	–	–	–	–	–	**125**	125
P Stobart	42	–	–	–	–	–	**42**	42
H Mautner	36	–	–	–	–	–	**36**	40
A Coppin	42	–	–	–	–	–	**42**	38
P Newton	36	–	–	–	–	–	**36**	18
M Wolstenholme	47	–	–	–	–	–	**47**	14
Total	1,788	–	186	193	123	5,110	**7,400**	5,571

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

b) In respect of 2004 awards.

c) The following amounts are expected to be paid in 2008 in connection with the 2005 CAP award: M Barber £1,369,000; X Pullen £1,299,000; K Ford £1,480,000; W Sunnucks £1,237,000; PY Gerbeau £1,128,000; and A Lewis-Pratt £1,304,000, once they cease to be subject to the risk of clawback.

* £56,738 was paid to M Barber as salary in lieu of pension contributions (2006: £56,738).

** £48,404 was paid to X Pullen as salary in lieu of pension contributions (2006: £48,404).

*** £17,452 was paid to A Lewis-Pratt as salary in lieu of pension contributions (2006: £34,906).

Directors' remuneration report continued

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.

Interests in ordinary shares and CULS	**Ordinary shares of 10p each 30 December 2007 shares**	Ordinary shares of 10p each 30 December 2006 shares
M Barber	**2,385,367**	2,365,897
X Pullen	**1,147,062**	1,101,910
W Sunnucks	**76,204**	56,204
K Ford	**534,986**	500,649
PY Gerbeau	**92,992**	66,667
A Lewis-Pratt	**2,131**	95,138
T Chandos	**40,071**	40,071
P Stobart	**–**	–
H Mautner	**38,083**	38,083
A Coppin	**3,350**	3,350
M Wolstenholme	**3,477**	3,477
P Newton	**4,600**	4,600

In addition, M Barber held £553 in convertible unsecured loan stock on 30 December 2006. By 30 December 2007, these had been converted into shares.

There have been no changes to the directors' interests in shares since 30 December 2007 except for Xavier Pullen who acquired 30,310 ordinary shares on 2 April 2008 following the exercise of share options and H Scott-Barrett who acquired 150,000 shares on 11 March 2008 as detailed on page 32.

Interests in share options	As at 30 December 2006	Exercised	**As at 30 December 2007**	Exercise price (p)	Earliest exercise date	Latest exercise date	Exercise condition met
M Barber	50,000	50,000	**–**	211.5	13/09/03	13/09/10	Yes
X Pullen	100,000	–	**100,000**	279.5	18/05/01	18/05/08	Yes
	50,000	–	**50,000**	211.5	13/09/03	13/09/10	Yes
	150,000	–	**150,000**				
K Ford	175,000	–	**175,000**	279.5	18/05/01	18/05/08	Yes
	50,000	–	**50,000**	211.5	13/09/03	18/09/10	Yes
	225,000		**225,000**				

During the year M Barber exercised 50,000 share options. The gain on exercise of the options was £661,750.

On 2 April 2008, Xavier Pullen exercised 100,000 share options. The gain on exercise was £292,000.

During the year, the share price ranged from a high of 1695p to a low of 391.75p. The share price as at 30 December 2007 was 391.75p.

No share options were granted during 2007 and no further awards will be made under these schemes to participants of the LTIP.

Approval

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

F Desai
Company Secretary
10 April 2008

Corporate governance report

Introduction

The Board of Directors is accountable to the Company's shareholders for the management and control of the Company's activities and is committed to high standards of corporate governance. This report and the directors' remuneration report set out on pages 31 to 36 describe how the Company complies with the provisions of the June 2006 Financial Reporting Council Combined Code on Corporate Governance ("the Combined Code").

Statement of compliance

The Company has complied throughout the year ended 30 December 2007, except where otherwise explained, with the provisions set out in Section 1 of the Combined Code issued by the Financial Reporting Council in June 2006.

Application of the principles

The Board of Directors

Details of the directors are set out on page 26. The Company is controlled through the Board of Directors which comprised the Chairman, six executive and five non-executive directors until 29 June 2007, and comprised the Chairman, five executive and five non-executive directors thereafter. The Board recognises that from the beginning of the year until 29 June 2007, its balance did not comply with the requirements of the Code in respect of Section A.3.2 which requires at least half the Board, excluding the Chairman, to comprise independent non-executive directors.

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

P Stobart continued to serve as the Senior Independent Director as required by the Combined Code for the year ended 30 December 2007.

The Company has well established differentiation between the roles of Chairman and Chief Executive, and has written terms of reference which have been approved by the Board.

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

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

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

The Audit Committee and Remuneration Committee consist solely of non-executive directors and meet at least twice a year. The Company recognises that the Nomination Committee did not comprise a majority of independent non-executive directors as required by Section A.4.1 of the Code until December 2007. The Company appointed Manjit Wolstenholme to the Nominations Committee on 10 December 2007.

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) and cash flow forecasts and details of funding availability.

All members of the Board are subject to the re-election provisions in the Articles which require them to offer themselves for re-election at least once every three years and at the first AGM after appointment, if appointed after the last AGM. Details of those directors offering themselves for re-appointment are set out in the directors' report on page 27.

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

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

Nomination Committee

The Committee comprises T Chandos (Chairman), P Stobart, M Barber, H Mautner and M Wolstenholme (appointed 10 December 2007).

Corporate governance report continued

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. During the year, the Committee considered the succession of the Chief Executive. M Barber was a member of the Committee but stood aside for the consideration of the new Chief Executive. 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 Company'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:

There were six full Board meetings during the year, five of which were scheduled meetings and one was an ad-hoc meeting.

Board meetings attendance

	Scheduled meetings	Ad hoc meetings	Total attendance
T Chandos	5	1	6
M Barber	5	1	6
X Pullen	5	1	6
W Sunnucks	5	1	6
H Mautner	3	0	3
K Ford	5	1	6
PY Gerbeau	5	1	6
P Stobart	5	1	6
A Lewis-Pratt	0	0	0
A Coppin	4	0	4
P Newton	5	1	6
M Wolstenholme	5	1	6

There were five Audit Committee meetings during the year.

Audit Committee meetings

	Attendance
P Stobart	5
A Coppin	3
M Wolstenholme	5

There were four Remuneration Committee meetings during the year.

Remuneration Committee meetings

	Attendance
M Wolstenholme	4
P Stobart	3
P Newton	4

There was one Nomination Committee meeting during the year.

Nomination Committee meetings

	Attendance
T Chandos	1
P Stobart	1
M Barber	0
H Mautner	1
M Wolstenholme (appointed 10 December 2007)	0

There were three Responsible Business Committee meetings during the year.

Responsible Business Committee meetings

	Attendance
A Coppin	3
X Pullen	3
W Sunnucks	3
A Lewis-Pratt	1

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 on pages 31 to 36.

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 the US and Europe, and participates in sector conferences. In addition, following the announcement of preliminary and interim results, and throughout the year, as requested, the Company holds update meetings with institutional shareholders. All the directors are accessible to all shareholders, and queries received verbally or in writing are immediately addressed. The directors are introduced to shareholders at the AGM each year and the non-executive directors and committee chairmen are clearly identified.

Announcements are made to the London Stock Exchange and the business media concerning business developments to provide wider dissemination of information. In particular, monthly announcements of fund unit valuations provide a regular update on the progress of the business. Registered shareholders are sent copies of both the annual report and accounts and the interim report. The Company is proposing a resolution at the AGM to permit the Company to use website communication as a means of communication with shareholders.

Accountability and audit
Financial reporting

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

Internal control

The Board is responsible for maintaining a sound system of internal control and risk management, to safeguard shareholders' investment and for reviewing its effectiveness. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The key risks identified are set out on page 3 of the business review.

In accordance with the guidance of the Turnbull Committee on internal control, an ongoing process has been established for identifying, evaluating and managing risks faced by the Company. This process has been in place 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. BDO, a major auditing firm, assisted the Group in carrying out the review. 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 Company's system of internal control are as follows:

- Defined organisational responsibilities and authority limits throughout the Group. The day-to-day involvement of the executive directors in the running of the business ensures that these responsibilities and limits are adhered to.
- Financial reporting to the Board including regular reports from the Fund Manager of The Mall, The Junction and X-Leisure Funds and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.

The Company has established a whistleblowing 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 consists of three non-executive directors, P Stobart (Chairman), A Coppin and M Wolstenholme.

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

The Audit Committee is also responsible for reviewing the cost-effectiveness and the volume of non-audit services provided to the Group by its external auditors. The Company does not impose an automatic ban on the Group's external auditors undertaking non-audit work, and details of fees paid to the Group's external auditors are detailed on page 53 in note 8 to the accounts. The Group's aim is always to have any non-audit work involving audit firms carried out in a manner that affords value for money.

The Company's policy is that the audit firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group. The Audit Committee reviews and makes recommendations to the Board for the re-appointment of the Group's external auditors. In order to maintain independence the audit partner of the Group's external auditors is subject to rotation at regular intervals. The Audit Committee normally meets five times a year; there is one meeting to approve the audit plan and two for each of the interim and final announcements. The first of the pre-announcement meetings is held early enough to allow the Committee members to have real input into the presentation of the accounts. The Chairman of the Audit Committee reports back to the Board on the key conclusions.

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

- Financial reporting: during the year the Committee reviewed the interim and annual financial statements. The Committee received a report from the external auditors setting out accounting or judgemental issues which required its attention. The auditors' reports were based on a full audit (annual report) and a high level review (interim report) respectively. The Committee also advised the Board on a number of other matters.
- Internal Controls and Risk Management: the Audit Committee meets with the external auditors and deals with any significant internal control matter. In the year under review the Committee met with the external auditors on five occasions. The Audit Committee received a paper from BDO on the internal controls of the Company.
- Internal Audit: The Group does not have an internal audit function. It has employed BDO, as explained earlier, to carry out a Group risks and control review. In addition, it also employed IRS, an experienced firm of risk surveyors, to review cash and security controls at selected locations. This falls short of a full internal audit function as the Company believes that a need for such a function does not currently exist. The Audit Committee 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 the directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

F Desai
Company Secretary
10 April 2008

Consolidated income statement

For the year ended 30 December 2007

	Notes	2007 £m	2006 £m
Rents, management fees and other revenue	4	**86.8**	69.5
Performance fees	4,5	**(52.8)**	62.6
Revenue	4	**34.0**	132.1
Cost of sales		**(19.1)**	(15.5)
Gross profit		**14.9**	116.6
Administrative costs		**(13.7)**	(39.0)
Share of (loss)/profit in joint ventures and associates	18	**(119.2)**	164.6
(Loss)/gain on revaluation of investment properties	13a	**(14.8)**	26.0
Profit on sale of properties and investments	13c	**1.8**	6.3
(Loss)/profit on ordinary activities before financing		**(131.0)**	274.5
Finance income	6	**3.5**	2.0
Finance costs	7	**(39.5)**	(25.6)
(Loss)/profit before taxation	8	**(167.0)**	250.9
Current tax	10a	**3.9**	(16.5)
Deferred tax	10a	**(3.7)**	(12.1)
Tax credit/(charge)		**0.2**	(28.6)
(Loss)/profit for the year	8	**(166.8)**	222.3
Basic (loss)/earnings per share	12	**(236)p**	317p
Diluted (loss)/earnings per share	12	**(236)p**	311p

All results derive from continuing activities

Consolidated balance sheet

As at 30 December 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Investment property	13a	**678.5**	511.4
Interest in long leasehold property	13a	**15.6**	16.0
Goodwill	14	**12.2**	12.2
Plant and equipment	15a	**1.5**	1.0
Investments	15b	**0.3**	0.2
Receivables	16	**7.2**	–
Investment in associates	18b	**599.4**	685.4
Investment in joint ventures	18d	**12.0**	67.6
Total non-current assets		**1,326.7**	1,293.8
Current assets			
Trading property assets	13a	**95.9**	94.4
Receivables	17	**19.9**	87.9
Tax recoverable	17	**1.6**	1.1
Cash and cash equivalents	19	**37.1**	35.5
Total current assets		**154.5**	218.9
Total assets		**1,481.2**	1,512.7
Current liabilities			
Trade and other payables	20	**(102.4)**	(69.4)
Current tax liabilities		**(18.4)**	(25.5)
		(120.8)	(94.9)
Non-current liabilities			
Bank loans	23a	**(622.4)**	(456.8)
Convertible subordinated unsecured loan stock	24	**–**	(1.3)
Other payables	21	**(17.5)**	(32.8)
Deferred tax liabilities	10c	**(17.5)**	(13.8)
Total non-current liabilities		**(657.4)**	(504.7)
Total liabilities		**(778.2)**	(599.6)
Net assets		**703.0**	913.1
Equity			
Called-up share capital	26	**7.1**	7.2
Share premium account	27	**219.7**	219.5
Revaluation reserve	27	**2.4**	2.7
Other reserves	28	**10.9**	9.6
Capital redemption reserve	27	**4.4**	4.3
Own shares held	27	**(8.7)**	(6.9)
Retained earnings	27	**467.2**	676.7
Equity shareholders' funds		**703.0**	913.1
Triple net, fully diluted net assets per share	30	**£10.04**	£12.72
EPRA diluted net assets per share	30	**£10.08**	£12.75

These financial statements were approved by the Board of Directors, authorised for issue and signed on their behalf on 9 April 2008 by:

W Sunnucks
Group Finance Director
10 April 2008

Consolidated statement of recognised income and expense

For the year ended 30 December 2007

	2007 £m	2006 £m
Foreign exchange translation differences	**7.6**	(0.7)
Revaluation (loss)/gain on owner occupied property	**(0.3)**	2.3
Net investment hedge	**(5.6)**	–
	1.7	1.6
(Loss)/profit for the year	**(166.8)**	222.3
Total recognised income and expense	**(165.1)**	223.9
Attributable to:		
Equity shareholders	**(165.1)**	223.9

Reconciliation of movement in equity shareholders' funds

For the year ended 30 December 2007

	2007 £m	2006 £m
Opening equity shareholders' funds	**913.1**	707.7
Issue of shares	**0.2**	2.7
Acquisition of own shares	**–**	(8.3)
Share buy back and cancellation	**(17.2)**	–
LTIP credit in respect of LTIP charge	**0.2**	2.1
Arising on conversion/repurchase of CULS	**(9.0)**	(0.8)
Amortisation of IFRS 1 reserve	**(0.1)**	(0.1)
	887.2	703.3
Total recognised income and expense	**(165.1)**	223.9
	722.1	927.2
Dividends paid	**(19.1)**	(14.1)
Closing equity shareholders' funds	**703.0**	913.1

Consolidated cash flow statement

For the year ended 30 December 2007

	Notes	2007 £m	2006 £m
Net cash generated from operations	29	**62.6**	89.5
Distributions received from joint ventures and associates		**25.6**	21.9
Interest paid		**(30.7)**	(22.1)
Interest received		**2.7**	1.9
Income taxes paid		**(3.8)**	(3.8)
Cash flows from operating activities		**56.4**	87.4
Investing activities			
Acquisitions of investment properties		**(62.8)**	(251.4)
Capital expenditure on investment properties		**(15.2)**	(2.0)
Acquisitions and disposals of other fixed assets		**(1.1)**	–
Acquisitions of companies		**(39.4)**	–
Cash acquired in business combinations		**1.0**	–
Proceeds from sale of investment and trading properties		**1.0**	111.0
Proceeds from sale of investments		**0.2**	–
Investment in joint ventures		**(3.3)**	(8.1)
Loans to joint ventures		**(6.1)**	(0.7)
Loans repaid by joint ventures		**0.7**	–
Disposal of units in associated entity		**–**	30.0
Acquisitions and disposals		**–**	(14.4)
Cash flows from investing activities		**(125.0)**	(135.6)
Financing activities			
Proceeds from the issue of ordinary share capital		**0.1**	0.4
Purchase of own shares		**(1.3)**	(8.3)
Share buy backs and cancellation		**(17.2)**	–
Repurchase of CULS		**(10.5)**	–
Bank loans draw down		**172.3**	639.4
Bank loans repaid		**(48.5)**	(575.0)
Loan arrangement costs		**(0.9)**	–
Settlement of foreign exchange forward		**(4.6)**	–
Dividends paid to minority interests		**(1.4)**	(0.6)
Equity dividends paid		**(19.1)**	(14.1)
Cash flows from financing activities		**68.9**	41.8
Net increase/(decrease) in cash and cash equivalents		**0.3**	(6.4)
Cash and cash equivalents at beginning of year		**35.5**	40.1
Effect of foreign exchange rate changes		**1.3**	1.8
Cash and cash equivalents at end of year		**37.1**	35.5

Notes to the accounts
For the year ended 30 December 2007

1 Significant accounting policies

General information
Capital & Regional plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 88. The nature of the Group's operations and its principal activities are set out in note 2 and in the operating and financial review on pages 2 to 25.

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

Adoption of new and revised standards
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:

Amendments to IFRS 2 – Share-based Payment

IFRS 3 Business Combinations

IFRS 7 Financial instruments: Disclosures; and the related amendment to IAS1 on capital disclosures

IFRS 8 Operating segments

Amendments to IAS 1 – Presentation of Financial Statements

Amendments to IAS 23 – Borrowing Costs

Amendments to IAS 27 – Consolidated and Separate Financial Statements

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 12 Service Concession Agreements

IFRIC 13 Customer Loyalty Programmes

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction

The directors anticipate that the adoption of these Standards and interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosure requirements when IFRS 7 comes into effect for periods commencing on or after 1 January 2007.

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

Basis of preparation
The financial statements are presented in sterling. They are prepared on the historical cost basis except that investment and development properties, owner-occupied properties and derivative financial instruments are stated at fair value. The accounting policies have been applied consistently to the results, other gains and losses, assets, liabilities, income and expenses. The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, described below, management are required to make judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements.

Critical accounting judgements include the estimation of performance fees, tax assets and liabilities, fair values of investment properties and derivative financial instruments, the assessment of estimated useful lives and residual values of property and the vesting assumptions relating to management incentive schemes. Management believes that the estimates and associated assumptions used in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated.

The Group's critical judgements and their effect on the financial statements in relation to performance fees are described in note 5, the narrative in the financial review on page 23 and in note 36, contingent liabilities. Management has considered in detail and made judgements on the possible further adverse yield shift that is likely to occur over the next two years in connection with shopping centres, retail parks and the leisure market, based on a wide range of available market information. The net impact of these judgements (after the benefit the Group receives as an investor and the adjustment to management incentives) has been estimated at a loss of £27million or reduction in net asset value of 38p per share. Note 36 shows that this loss could potentially increase by a further £6.7 million or 9.5p per share if certain outcomes prevail.

Management has reviewed the non-market based vesting assumptions in relation to the LTIP. Given the Group's performance over the last three years and the Group's estimated performance over the next two years, management has concluded that no shares will vest under the non-market conditions for 2006 and 2007. The effect of this is a credit to the income statement of £0.5 million.

Management has relied upon the work undertaken at 30 December 2007 by independent professional qualified valuers, as disclosed in note 13b, in assessing the fair value of the Group's investment and owner occupied properties.

Management has relied upon the work undertaken at 30 December 2007 by independent third party experts in assessing the fair value of the Group's derivative financial instruments.

1 Significant accounting policies continued

Management has assessed changes in recent legislation, case law and accounting standards, along with future projections for the Group, in determining the Group's current and deferred tax assets and liabilities and credit to the income statement. Details are described in note 10 to the accounts.

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.

The principal accounting policies adopted are set out below.

Basis of consolidation

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

Subsidiaries

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

Joint ventures and associates

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

Goodwill

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

Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

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

The principal exchange rate used to translate foreign currency denominated amounts in the balance sheet is the rate at the end of the year, £1 = €1.365 (2006: £1 = €1.484). The principal exchange rate used for the income statement is the average rate, £1 = €1.462 (2006: £1 = €1.467).

Plant and equipment

Plant and equipment are stated at the lower of cost or valuation, net of depreciation and any provision for impairment.

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

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

Property portfolio

Investment properties

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

Leasehold properties

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

1 Significant accounting policies continued

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

Properties under development
Attributable internal and external costs incurred during the period of development are capitalised. Interest is capitalised gross in the associates and joint ventures before deduction of related deferred tax relief. There is no interest capitalised in the Group. Interest is calculated on the development expenditure by reference to specific borrowings where relevant. A property ceases to be treated as being under development when substantially all activities that are necessary to get the property ready for use are complete.

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

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

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

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

Tenant leases and incentives
Management has exercised judgement in considering the potential transfer of risks and rewards of ownership in accordance with IAS 17 “Leases” for all properties leased to tenants and have determined that all such leases are operating leases.

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

Borrowings and derivatives

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

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

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

Derivative financial instruments and hedge accounting
As defined by IAS 39 “Financial Instruments: Recognition and Measurement”, derivatives are carried at fair value in the balance sheet. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

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

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

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

Minority interest
The minority interest, arising from the Group's German operations, is classified as a liability and held at fair value in the balance sheet. Under the terms of the contract the minority has a put option to sell their share back to the Group typically after five years from acquisition. The minority interests' share of income and expenses is treated as a non-recurring finance charge in the income statement.

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.

1 Significant accounting policies continued

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

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

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

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

Employee benefits

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

Long-term incentive plan (LTIP)
The Group has applied the arrangements of IFRS 2 "Share-based Payments". Equity settled share-based payments are measured at fair value at the date of grant. The fair value of share-based employee remuneration is calculated using a normal distribution model, which the directors consider not to be materially different from the binominal model. The fair value is expensed on a straight-line basis over the vesting period.

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

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

Revenue

Performance fees
Performance fees are recognised, in line with the property management contracts, at the end of the performance period to which they relate. The performance period is normally three years. CRPM earns performance fees for The Mall and Junction Funds on the outperformance relative to the greater of 12% and the appropriate IPD index. For The X-Leisure Fund the benchmark is only 12%. Where performance falls short of these benchmarks, fees are repayable, up to the amount received for the previous two years. Where there is a reasonable likelihood that part of a performance fee will be repaid the estimated repayment will not be recognised as income until the outcome can be reliably estimated. This policy has been clarified as a result of the expected clawback of performance fees.

Management fees
Management fees are recognised, in line with the property management contracts, in the period to which they relate. Management fees include income in relation to services provided by CRPM to both the joint ventures and the associated Funds for asset management, rent reviews, lettings, project co-ordination, procurement, service charges and directly recoverable expenditure.

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

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

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

Inter segment transactions
All transactions between segments are accounted for on an arm's length basis.

2 Segmental analysis – non-statutory see through basis

2a Business segments on a see through basis

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

2007	Note	Assets Property investment UK £m	Assets Property investment Germany £m	Earnings Property management UK £m	Earnings SNO!zone £m	Year to 30 December 2007 Total £m
Non-statutory information						
Net rents	2b	70.0	24.9	–	–	**94.9**
Net interest	2b	(54.2)	(14.4)	–	–	**(68.6)**
Contribution	2b	15.8	10.5	–	–	**26.3**
Management fees	4	–	–	26.0	–	**26.0**
SNO!zone income	4	–	–	–	14.3	**14.3**
SNO!zone expenses		–	–	–	(12.2)	**(12.2)**
Management expenses		(5.6)	(0.9)	(15.2)	–	**(21.7)**
Recurring pre-tax profit		10.2	9.6	10.8	2.1	**32.7**
Performance fees/(clawback)	4,5	–	–	(52.8)	–	**(52.8)**
(Cost)/benefit of performance fees	18c	18.1	–	–	–	**18.1**
Variable overhead		–	–	7.9	–	**7.9**
Revaluation of investment properties		(174.0)	9.6	–	–	**(164.4)**
Profit on disposals		1.6	–	–	–	**1.6**
(Loss)/gain on financial instruments		(8.8)	1.8	–	–	**(7.0)**
Other non-recurring items		–	(3.1)	–	–	**(3.1)**
(Loss)/profit before tax		(152.9)	17.9	(34.1)	2.1	**(167.0)**
Tax						**0.2**
(Loss)/profit after tax						**(166.8)**
Net assets/(liabilities) at 30 December 2007		613.3	123.8	(34.0)	(0.1)	**703.0**

2b Contribution

2007	Note	Gross Rent £m	Property Costs £m	Void Costs £m	Net rent £m	Net interest £m	Contribution Year to 30 December 2007 Total £m
Non-statutory information – see through basis							
Mall (C&R share: 24.2%)[1]		44.2	(10.1)	(1.8)	32.3	(19.6)	12.7
Junction (C&R share: 27.3%)[1]		15.7	(2.9)	(0.3)	12.5	(9.5)	3.0
X-Leisure (C&R share: 19.4%)[1]		9.9	(2.1)	(0.3)	7.5	(5.1)	2.4
Total associates	18c	**69.8**	**(15.1)**	**(2.4)**	**52.3**	**(34.2)**	**18.1**
Xscape Braehead (C&R share 50%)[1]		2.0	(0.4)	(0.1)	1.5	(1.9)	(0.4)
Manchester Arena (C&R share 30%)[1]		1.6	(0.3)	(0.1)	1.2	(0.9)	0.3
Others (C&R share: 50%)[1]		0.9	(0.4)	(0.1)	0.4	(0.4)	–
Total joint ventures	18e	**4.5**	**(1.1)**	**(0.3)**	**3.1**	**(3.2)**	**(0.1)**
Statutory information							
Other UK		1.0	–	–	1.0	(6.1)	(5.1)
FIX UK		9.5	(1.2)	(0.4)	7.9	(6.7)	1.2
Germany		29.6	(4.6)	(0.1)	24.9	(14.4)	10.5
Total rental income investment property		40.1	(5.8)	(0.5)	33.8	(27.2)	6.6
Great Northern[2]		6.4	(0.3)	(0.4)	5.7	(4.0)	1.7
Total wholly owned rental income	4	**46.5**	**(6.1)**	**(0.9)**	**39.5**	**(31.2)**	**8.3**
Total on a see through basis	2a	**120.8**	**(22.3)**	**(3.6)**	**94.9**	**(68.6)**	**26.3**

Associates and Joint Ventures are all held within the United Kingdom.
1 Capital & Regional's share at end of year.
2 Great Northern is carried as a trading property in the balance sheet.

2 Segmental analysis – non-statutory see through basis continued

2a Business segments on a see through basis continued

2006	Note	Assets: Property investment UK £m	Assets: Property investment Germany £m	Earnings: Property management UK £m	SNO!zone £m	Year to 30 December 2006 Total £m
Non-statutory information						
Net rents	2b	65.5	11.5	–	–	77.0
Net interest	2b	(49.6)	(5.7)	–	–	(55.3)
Contribution	2b	15.9	5.8	–	–	21.7
Management fees	4	–	–	27.4	–	27.4
SNO!zone income	4	–	–	–	13.1	13.1
SNO!zone expenses		–	–	–	(11.3)	(11.3)
Management expenses		(4.6)	–	(14.0)	–	(18.6)
Recurring pre-tax profit		11.3	5.8	13.4	1.8	32.3
Performance fees	4,5	–	–	62.6	–	62.6
(Cost)/benefit of performance fees	18c	(20.1)	(0.3)	–	–	(20.4)
Variable overhead		–	–	(18.3)	–	(18.3)
Revaluation of investment properties		149.5	17.2	–	–	166.7
Profit on disposals		11.1	–	–	–	11.1
Gain on interest rate swaps		23.5	–	–	–	23.5
Other non-recurring items		(2.0)	(2.5)	(2.1)	–	(6.6)
Profit before tax		173.3	20.2	55.6	1.8	250.9
Tax						(28.6)
Profit after tax						222.3
Net assets/(liabilities) at 30 December 2006		774.9	103.5	35.0	(0.3)	913.1

2b Contribution continued

2006	Note	Gross rent £m	Property costs £m	Void costs £m	Net rent £m	Net interest £m	Contribution Year to 30 December 2006 Total £m
Non-statutory information – see through basis							
Mall (C&R share: 24.2%)[1]		45.1	(11.5)	(1.5)	32.1	(18.0)	14.1
Junction (C&R share: 27.3%)[1]		14.5	(3.1)	(0.4)	11.0	(9.2)	1.8
X-Leisure (C&R share: 10.6%)[1]		4.9	(0.8)	(0.2)	3.9	(2.5)	1.4
Total associates	18c	64.5	(15.4)	(2.1)	47.0	(29.7)	17.3
Xscape (C&R share)[2]		6.6	(1.2)	(0.4)	5.0	(4.8)	0.2
Others (C&R share: 30-50%)[1]		0.3	(0.1)	–	0.2	(0.1)	0.1
Total joint ventures	18e	6.9	(1.3)	(0.4)	5.2	(4.9)	0.3
Statutory information							
Other UK		4.6	1.3	–	5.9	(8.2)	(2.3)
FIX UK		4.7	(1.1)	(0.4)	3.2	(3.0)	0.2
Germany		14.3	(2.8)	–	11.5	(5.7)	5.8
Total rental income investment property		23.6	(2.6)	(0.4)	20.6	(16.9)	3.7
Great Northern[3]		5.3	(0.5)	(0.6)	4.2	(3.8)	0.4
Total wholly owned rental income	4	28.9	(3.1)	(1.0)	24.8	(20.7)	4.1
Total	2a	100.3	(19.8)	(3.5)	77.0	(55.3)	21.7

Associates and Joint Ventures are all held within the United Kingdom.

1 Capital & Regional's share at end of year.

2 Capital & Regional's share consists of Xscape Milton Keynes 50% (2006: 50%), Xscape Castleford 66.67% (2006: 66.67%) and Xscape Breahead 50% (2006:50%).

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

3 Segmental analysis – statutory basis

3a Primary business segments – statutory basis

2007	Note	Property investment UK £m	Property investment Germany £m	Property management UK £m	SNO!zone £m	Year to 30 December 2007 Total £m
Revenue from external sources	4	16.9	29.6	(26.8)	14.3	**34.0**
Transactions with other segments		1.0	–	1.1	–	**2.1**
Total segment revenue		17.9	29.6	(25.7)	14.3	**36.1**
Cost of sales		(2.2)	(4.7)	–	(12.2)	**(19.1)**
Transactions with other segments		(1.0)	–	(1.0)	(0.1)	**(2.1)**
Property and administration costs		(5.6)	(0.9)	(7.2)	–	**(13.7)**
Gain on sale of properties and investments		1.8	–	–	–	**1.8**
(Loss)/gain on revaluation of investment properties		(24.4)	9.6	–	–	**(14.8)**
Segment result		(13.5)	33.6	(33.9)	2.0	**(11.8)**
Share of (loss) in joint ventures and associates		(119.2)	–	–	–	**(119.2)**
Net finance costs		(21.6)	(14.4)	–	–	**(36.0)**
(Loss)/profit before tax		(154.3)	19.2	(33.9)	2.0	**(167.0)**
Segment assets		323.6	510.0	28.8	5.8	**868.2**
Interest in joint ventures and associates						**611.4**
Tax assets						**1.6**
Consolidated total assets						**1,481.2**
Segment liabilities		(21.0)	(24.2)	(68.8)	(5.9)	**(119.9)**
Interest bearing liabilities						**(622.4)**
Tax liabilities						**(35.9)**
Consolidated total liabilities						**(778.2)**
Capital expenditure		86.2	63.0	0.1	0.8	**150.1**
Depreciation		0.1	–	0.2	0.3	**0.6**
Significant other non cash expenses		–	–	(10.3)	–	**(10.3)**
Aggregate investment in joint ventures and associates		611.4	–	–	–	**611.4**

3b Secondary business segments – statutory basis

	Note	United Kingdom £m	Germany £m	Total £m
Revenue	4	4.4	29.6	34.0
Segment gross assets		358.2	510.0	868.2
Capital expenditure		87.1	63.0	150.1

3 Segmental analysis – statutory basis continued

3a Primary business segments – statutory basis continued

2006	Note	Property investment UK £m	Property investment Germany £m	Property management UK £m	SNO!zone £m	Year to 30 December 2006 Total £m
Revenue from external sources	4	14.7	14.3	90.0	13.1	132.1
Transactions with other segments		1.0	–	1.6	–	2.6
Total segment revenue		15.7	14.3	91.6	13.1	134.7
Cost of sales		(1.4)	(2.8)	–	(11.3)	(15.5)
Transactions with other segments		(1.5)	–	(1.0)	(0.1)	(2.6)
Property and administration costs		(4.6)	–	(34.4)	–	(39.0)
Gain on sale of properties and investments		6.3	–	–	–	6.3
Gain on revaluation of investment properties		8.8	17.2	–	–	26.0
Segment result		23.3	28.7	56.2	1.7	109.9
Share of profit in joint ventures and associates		164.6	–	–	–	164.6
Net finance costs		(15.4)	(8.2)	–	–	(23.6)
Profit before tax		172.5	20.5	56.2	1.7	250.9
Segment assets		253.2	405.9	95.5	4.0	758.6
Interest in joint ventures and associates						753.0
Tax assets						1.1
Consolidated total assets						1,512.7
Segment liabilities		(16.5)	(20.9)	(60.5)	(4.3)	(102.2)
Interest bearing liabilities						(458.1)
Tax liabilities						(39.3)
Consolidated total liabilities						(599.6)
Capital expenditure		40.8	234.1	0.2	0.6	275.7
Depreciation		0.1	–	0.1	0.2	0.4
Significant other non-cash expenses		–	–	11.6	–	11.6
Aggregate investment in joint ventures and associates		753.0	–	–	–	753.0

3b Secondary business segments – statutory basis continued

	Note	United Kingdom £m	Germany £m	Total £m
Revenue	4	117.8	14.3	132.1
Segment gross assets		352.7	405.9	758.6
Capital expenditure		41.6	234.1	275.7

4 Revenue

	Note	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Assets business			
Wholly-owned investment property gross rents	2b	**40.1**	23.6
Wholly-owned trading property gross rents	2b	**6.4**	5.3
Wholly-owned total gross rents	2b	**46.5**	28.9
Earnings business			
Property management – management fees	2a	**26.0**	27.4
SNO!zone	2a	**14.3**	13.1
Other revenue		**–**	0.1
Revenue per consolidated income statement		**86.8**	69.5
Property management – performance fees	2a, 5	**–**	62.6
Property management – estimated future repayment	2a, 5	**(52.8)**	–
Net revenue	3a	**34.0**	132.1
Finance income	6	**3.5**	2.0
Total revenue		**37.5**	134.1

5 Performance fees

	Note	The Mall LP £m	The Junction LP £m	The X-Leisure LP £m	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Property manager – payable to C&R	2a, 4	–	–	–	**–**	62.6
Property manager – payable by C&R to others*		–	–	–	**–**	1.5
Fund manager – payable to others		–	–	–	**–**	20.3
Performance fees included in associates accounts	18c	–	–	–	**–**	84.4
Property manager future estimated repayment of performance fees		(36.9)	(17.3)	–	**(54.2)**	–
Fund manager future estimated repayment of performance fees		(12.3)	(5.5)	–	**(17.8)**	–
Total performance fees included in associates adjusted accounts	18c	(49.2)	(22.8)	–	**(72.0)**	–
Property manager future estimated repayment of performance fees to others*		1.4	–	–	**1.4**	–
Total future estimated repayment of performance fees		(47.8)	(22.8)	–	**(70.6)**	–
C&R's share of future estimated repayments of performance fees						
Property manager future estimated repayment of performance fees		(36.9)	(17.3)	–	**(54.2)**	–
Property manager future estimated repayment of performance fees to others*		1.4	–	–	**1.4**	–
Total C&R share of future estimated repayment of performance fees	4	(35.5)	(17.3)	–	**(52.8)**	–

* C&R's share of the Mall performance fee is reduced by an amount of (£1.4m) receivable from others.

The overall effect of the repayment of performance fees is reduced as a result of C&R's share as an investor in the Funds and reduction in management incentive payments.

Further disclosure relating to performance fees can be found in the financial review on page 23 and in the contingent liability note 36 on page 75.

6 Finance income

	Note	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Interest receivable		**3.5**	1.9
Other income		**–**	0.1
Total finance income	4	**3.5**	2.0

7 Finance costs

	Note	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Interest on bank loans and overdrafts		**31.4**	22.1
Interest receivable on swaps		**(0.4)**	(0.6)
Interest on other loans		**0.4**	0.3
Interest payable		**31.4**	21.8
Amortisation of loan issue costs		**0.8**	0.9
Unwinding of discounting of CAP awards		**2.0**	2.2
Share of income attributable to minority interest classified as a liability	22	**1.9**	2.6
Other interest payable		**1.9**	1.3
Loss/(gain) in fair value of financial instruments		**1.6**	(3.1)
Fair value gains on interest rate swaps transferred from equity		**(0.1)**	(0.1)
Total finance costs		**39.5**	25.6

8 (Loss)/profit before taxation

	Note	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
This is arrived at after charging/(crediting):			
Depreciation – owned assets		**0.5**	0.3
Depreciation of owner occupied property		**0.1**	0.1
Net exchange (losses)/gains		**(2.0)**	0.2
(Loss)/gain on revaluation of investment properties		**(14.8)**	26.0
Staff costs	9	**7.8**	33.5
Auditors' remuneration (see below)		**0.5**	0.7
Auditors' remuneration			
Fees payable to the Company's auditors for the audit of the Company annual accounts		**0.2**	0.2
Fees payable to the Company's auditors and their associates for other services to the group			
– The audit of the companies' subsidiaries and joint ventures pursuant to legislation		**0.3**	0.3
– Audit fees for IFRS conversion		**–**	0.1
Total audit fees		**0.5**	0.6
Non-audit fees (see below)		**0.1**	0.1
Total fees paid to auditors		**0.6**	0.7

Included in non-audit fees are amounts for services supplied pursuant to legislation £60,000 (2006: £82,000), services relating to tax £13,000 (2006: £10,000) and other services £nil (2006: £21,000).

Fees payable to Deloitte and Touche 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.

9 Staff costs, including directors

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

	Note	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Salaries		**15.7**	13.7
Discretionary bonuses		**0.5**	4.9
Capital appreciation plan[2]		**(9.3)**	7.9
Share-based employee remuneration[1]		**0.2**	2.1
Wages and salaries		**7.1**	28.6
Social security		**0.6**	4.8
Other pension costs		**0.1**	0.1
		7.8	33.5

1 Details of fair value assumptions are disclosed in note 26.
2 CAP credit relates to the effect of the clawback of performance fees

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

Staff numbers

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

	2007 Number	2006 Number
Central management	**183**	168
Snow slope business	**300**	311
Total	**483**	479

10 Tax

10a Tax (credit)/charge

	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Current tax (credit)/charge		
UK corporation tax	**0.1**	6.6
Adjustments in respect of prior years	**(4.0)**	9.7
Foreign tax	**–**	0.2
Total current tax	**(3.9)**	16.5
Deferred tax charge/(credit)		
On net income before revaluations and disposals	**6.9**	9.7
On revaluations and disposals	**–**	0.3
Adjustments in respect of prior years	**(3.2)**	2.1
Total deferred tax	**3.7**	12.1
Total taxation (credit)/charge	**(0.2)**	28.6

10 Tax continued

10b Tax charge reconciliation

	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
(Loss)/profit before tax	**(167.0)**	250.9
(Loss)/profit multiplied by the UK corporation tax rate of 30%	**(50.1)**	75.3
Non-allowable expenses and non-taxable items	**8.6**	(6.1)
Utilisation of tax losses	**(4.2)**	(3.9)
Tax on revaluation gains	**0.1**	(3.5)
Unrealised losses/(gains) on investment property not deductible/taxable	**52.6**	(45.0)
Prior year adjustments	**(7.2)**	11.8
Total tax (credit)/charge	**(0.2)**	28.6

10c Deferred tax movements

	Capital gains net of capital losses £m	Capital allowances £m	Other timing differences £m	Total £m
UK				
As at 30 December 2006	0.5	8.7	(2.3)	6.9
Recognised in income	(0.7)	(1.7)	5.1	2.7
As at 30 December 2007	(0.2)	7.0	2.8	9.6
Germany				
As at 30 December 2006	5.2	1.7	–	6.9
Recognised in income	(0.1)	1.1	–	1.0
As at 30 December 2007	5.1	2.8	–	7.9
Total deferred tax at 30 December 2007	**4.9**	**9.8**	**2.8**	**17.5**

At the balance sheet date, the Group has unused tax losses of £47.5 million (2006: £0.7 million) available for offset against future profits.

Unused tax losses	30 December 2007 £m	30 December 2006 £m
United Kingdom	**42.1**	0.7
Overseas	**5.4**	–
Total	**47.5**	0.7

No deferred tax asset has been recognised in respect of such losses (2006: £nil). The tax losses have not been recognised due to the unpredictability of future profit streams.

With effect from 1 April 2008 the mainstream corporation tax rate was reduced from 30% to 28%. The German Government has reduced the corporate income tax rate from 26.375% to 15.875%, effective from 1 January 2008. Consequently, the rate at which deferred tax is provided on UK deferred tax items is now 28% and the rate applied to German deferred tax items is 15.825%.

The effect of these rate adjustments is a reduction in the total deferred tax liability brought forward at 31 December 2006 of £3.2 million. This amount is shown as a deferred tax prior year adjustment in the income statement.

The calculation of the Group's tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. In such cases, the Group has reserved on the basis that these provisions are required. If all such issues are resolved in the Group's favour, provisions of up to £17.7 million could be released in future periods.

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

Notes to the accounts continued

For the year ended 30 December 2007

11 Dividends

	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Amounts recognised as distributions to equity holders in the year:		
Final of 17p per share paid on 15 June 2007 (2006: 11p per share)	**12.1**	7.7
Interim of 10p per share paid on 12 October 2007 (2006: 9p per share)	**7.0**	6.4
	19.1	14.1
Proposed final of 17p payable on 15 June 2008 (2006: 17p per share)	**11.9**	11.9
	31.0	26.0

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

12 Earnings per share

12a The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of certain earnings per share information and these are shown in the following tables.

2007	Note	Earnings £m	Weighted average number of shares	Pence per share
Weighted average number of shares			**71.7**	
Own shares held			**(0.9)**	
Basic		**(166.8)**	**70.8**	**(236)p**
Dilutive share options		**–**	**–**	
Conversion of Convertible Unsecured Loan Stock		**–**	**–**	
Diluted		**(166.8)**	**70.8**	**(236)p**
Revaluation movements on investment properties, development properties and other investments	12b	**164.4**		**232p**
Profit on disposal of investment properties (net of tax)	12b	**(1.1)**		**(1)p**
Movement in fair value of financial instruments	12b	**7.0**		**10p**
Deferred tax charge		**(3.0)**		**(4)p**
EPRA diluted		**0.5**		**1p**
Performance fee clawback (net of back charge and management incentives) – see page 23		**26.8**		**38p**
Adjusted EPRA diluted		**27.3**		**39p**

The Group has 439,970 share options that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the current period presented.

2006	Note	Earnings £m	Weighted average number of shares	Pence per share
Weighted average number of shares			71.5	
Own shares held			(1.3)	
Basic		222.3	70.2	317p
Dilutive share options			0.5	–
Conversion of Convertible Unsecured Loan Stock		0.2	0.9	–
Diluted		222.5	71.6	311p
Revaluation movements on investment properties, development properties and other investments	12b	(166.7)		(233)p
Profit on disposal of investment properties (net of tax)	12b	(10.8)		(15)p
Movement in fair value of interest rate swaps	12b	(23.5)		(33)p
Deferred tax charge		11.7		16p
EPRA diluted		33.2		46p

12 Earnings per share continued

The 2006 basic earnings per share has been restated to include the effect of 1,322,240 of own shares held at 30 December 2006. The effect is to increase basic earnings per share by 6p from 311p to 317p.

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

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

12b Reconciliation of earnings figures included in EPS calculation to the income statement

	Note	**2007 Revaluation movements £m**	**2007 Profit on disposal £m**	**2007 Movement in fair value of interest rate swaps £m**	2006 Revaluation movements £m	2006 Profit on disposal £m	2006 Movement in fair value of interest rate swaps £m
Share of profits of associates	18c	**(146.5)**	**(2.7)**	**(5.1)**	133.9	2.1	20.2
Share of profits of joint ventures	18e	**(3.1)**	**2.4**	**(0.3)**	6.8	2.7	1.4
Wholly owned		**(14.8)**	**1.8**	**(1.6)**	26.0	6.3	1.9
Tax effect		**–**	**(0.4)**	**–**	–	(0.3)	–
Total per EPS calculation	12a	**(164.4)**	**1.1**	**(7.0)**	166.7	10.8	23.5

13 Property assets

13a Wholly-owned property assets

	Freehold investment property assets £m	Leasehold investment property assets £m	Sub-total investment property assets £m	Long leasehold owner occupied building £m	Freehold trading property asset £m	**Total property assets £m**
Cost or valuation						
As at 31 December 2005	204.9	113.4	318.3	13.8	93.7	**425.8**
Exchange adjustments	(5.8)	–	(5.8)	–	–	**(5.8)**
Acquisitions	272.1	–	272.1	–	0.7	**272.8**
Additions	2.0	–	2.0	–	–	**2.0**
Depreciation	–	–	–	(0.1)	–	**(0.1)**
Disposals	(5.1)	(96.1)	(101.2)	–	–	**(101.2)**
Revaluation movement recognised in income	25.9	0.1	26.0	–	–	**26.0**
Revaluation movement recognised in equity	–	–	–	2.3	–	**2.3**
As at 31 December 2006	494.0	17.4	511.4	16.0	94.4	**621.8**
Exchange adjustments	38.4	–	38.4	–	–	**38.4**
Acquisitions	70.6	–	70.6	–	–	**70.6**
Additions	13.0	–	13.0	–	1.5	**14.5**
Properties acquired in business combinations	60.9	–	60.9	–	–	**60.9**
Depreciation	–	–	–	(0.1)	–	**(0.1)**
Disposals	(1.0)	–	(1.0)	–	–	**(1.0)**
Revaluation movement recognised in income	(14.1)	(0.7)	(14.8)	–	–	**(14.8)**
Revaluation movement recognised in equity	–	–	–	(0.3)	–	**(0.3)**
As at 30 December 2007	**661.8**	**16.7**	**678.5**	**15.6**	**95.9**	**790.0**

The owner-occupied building represents the Group's head office, which was independently valued at 30 December 2007.

The historical cost of the owner-occupied building, which is a long leasehold land and building, after depreciation is £12.9 million (2006: £13.0 million). At 30 December 2007 the gross carrying value of the owner occupied building is £15.6 million (2006: £16.0 million) and the accumulated depreciation is £0.6 million (2006: £0.5 million). The lease has more than 50 years remaining.

The Group has pledged land and buildings having a carrying amount of £787.5 million (2006: £621.8 million) to secure banking facilities granted to the Group. This includes amounts relating to trading properties of £95.9 million (2006: £94.4 million).

13 Property assets continued

13b Property assets

	Valuer	Basis of valuation	Note	2007 Valuation £m	2006 Valuation £m
Group properties	DTZ Debenham Tie Leung	Fair value		**492.3**	402.5
	CB Richard Ellis	Fair value		**169.9**	–
	Directors' valuations	Fair value		**0.2**	0.2
	King Sturge	Fair value		**16.7**	109.8
				679.1	512.5
Plus: head leases treated as finance leases				**–**	–
Less: unamortised tenant incentives				**(0.6)**	(1.1)
Total investment properties			13a	**678.5**	511.4
Other fixed assets	DTZ Debenham Tie Leung	Fair value	13a	**15.6**	16.0
Trading property asset	n/a	Historic cost	13a	**95.9**	94.4
Total wholly-owned property assets			13a	**790.0**	621.8
Properties held by joint ventures					
Xscape Milton Keynes Partnership	DTZ Debenham Tie Leung	Fair value		**–**	109.5
Xscape Castleford Partnership	DTZ Debenham Tie Leung	Fair value		**–**	73.8
Xscape Braehead Partnership	DTZ Debenham Tie Leung	Fair value		**79.6**	78.8
Manchester Evening News Arena	CB Richard Ellis	Fair value		**64.0**	66.5
Capital Retail Park Partnership	King Sturge	Fair value		**28.9**	–
				172.5	328.6
Plus: head leases treated as finance leases				**3.3**	3.5
Less: unamortised tenant incentives				**(8.2)**	(11.4)
Total investment properties held by joint ventures			18e	**167.6**	320.7
Properties held by associates					
The Mall Limited Partnership	DTZ Debenham Tie Leung	Fair value		**3,015.7**	3,125.0
The Junction Limited Partnership	King Sturge	Fair value		**1,223.0**	1,590.0
X-Leisure Limited Partnership	Jones Lang LaSalle	Fair value		**947.1**	807.0
				5,185.8	5,522.0
Plus: head leases treated as finance leases				**124.9**	89.0
Less: unamortised tenant incentives				**(57.7)**	(43.9)
Total investment properties held by associates			18c	**5,253.0**	5,567.1

The fair value of the Group's investment and owner occupied properties at 30 December 2007 has been arrived at on the basis of a valuation carried out at that date by independent qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors, CB Richard Ellis Limited, Chartered Surveyors, Jones Lang LaSalle, Chartered Surveyors and King Sturge, Chartered Surveyors. These independent valuers are not connected with the Group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

13 Property assets continued

13c Profit on sale of properties and investments

	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Profit on sale of investment property	**–**	6.1
Profit/(loss) on sale of units in joint ventures and associates	**2.6**	(0.8)
Other writedowns, impairments and release of provisions	**(0.8)**	1.0
	1.8	6.3

14 Goodwill

	£m
As at 30 December 2006 and 30 December 2007	**12.2**

The goodwill carried in the Group balance sheet relates to the acquisition of the MWB fund management business, by CRPM, in 2003, which included MWB's 13.29% interest in Leisure Fund 1, 5.72% interest in Leisure Fund IIa and 7.09% interest in Leisure Fund IIb. This goodwill is tested annually for impairment or more frequently if there are indications that the goodwill might be impaired.

Impairment is tested by discounting the expected cash flows generated by the leisure division of CRPM over the life of the property management contract, which is coterminous with the life of the X-Leisure Fund. The expected life of the property management contract assumes that the life of the X-Leisure Fund is extended to 31 December 2023.

The rate used to discount the expected cash flows is 8.5% which is considered to be the Groups weighted average cost of capital. Management fees receivable, as well as both fixed and variable administration costs, are assumed to grow by 2% per annum. No account is taken of any future performance fees apart from where there is an expectation of performance fees being repaid in the next two years.

15 Other non-current assets

15a Plant and equipment

	Plant and equipment 2007 £m	Plant and equipment 2006 £m
Cost or valuation		
As at 31 December	**3.1**	2.3
Additions	**0.9**	0.8
Disposals	**(0.1)**	–
As at 30 December	**3.9**	3.1
Depreciation		
As at 31 December	**2.1**	1.8
Provided for the year	**0.5**	0.3
Released on disposal	**(0.2)**	–
As at 30 December	**2.4**	2.1
Carrying amounts:		
As at 30 December	**1.5**	1.0

15b Investments

	Investments 2007 £m	Investments 2006 £m
Cost or valuation		
As at 31 December	**0.2**	0.2
Increase in fair value	**0.2**	–
Disposals	**(0.1)**	–
As at 30 December	**0.3**	0.2

The investments comprise of the following:

4.5% Treasury Stock 2007 £nil (2006: £150,000).
£241,200 (2006: £50,055) being the fair value of units in the Paddington Central III Unit Trust.
£10,000 (2006: £10,000) – representing the fair value of a 49.99% interest in Best Park Investments Limited acquired in 2006. Capital & Regional treats this as an investment, rather than as an associate, as it does not exercise any significant influence or control over the entity.

16 Non-current receivables

	30 December 2007 Total £m	30 December 2006 Total £m
Prepayments and accrued income	**1.1**	–
Amounts owed by joint ventures	**6.1**	–
	7.2	–

17 Current receivables

	30 December 2007 Total £m	30 December 2006 Total £m
Trade receivables	**3.3**	4.2
Amounts owed by joint ventures	**0.1**	0.8
Amounts owed by associates	**6.2**	66.2
Other receivables	**2.3**	8.4
Fair value of interest rate swaps	**1.9**	3.4
Prepayments and accrued income	**6.1**	4.9
Total current receivables	**19.9**	87.9
Tax recoverable	**1.6**	1.1
	21.5	89.0

18 Associates and joint ventures

18a Share of results

	Note	Year to 30 December 2007 £m	Year to 30 December 2006 £m
Associates	18b, c	**(118.1)**	153.4
Joint ventures	18d, e	**(1.1)**	11.2
		(119.2)	164.6

18 Associates and joint ventures continued

18b Investment in associates

	Note	30 December 2007 £m	30 December 2006 £m
At the beginning of the year		**685.4**	583.7
Investment in X-Leisure Fund		**53.9**	–
Disposal of Mall units		**–**	(30.7)
Dividends and capital distributions received		**(21.8)**	(21.0)
Share of results	18a, c	**(118.1)**	153.4
At the end of the year	18c	**599.4**	685.4

18c Analysis of investment in associates

	Note	The Mall LP £m	The Junction LP £m	X-Leisure[1] LP £m	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Income statement (100%)						
Revenue		182.5	57.0	52.0	**291.5**	275.5
Property expenses		(33.2)	(2.6)	(6.2)	**(42.0)**	(42.5)
Management expenses		(16.0)	(9.1)	(6.4)	**(31.5)**	(30.9)
Net rents		133.3	45.3	39.4	**218.0**	202.1
Net interest payable		(81.0)	(36.2)	(26.6)	**(143.8)**	(127.5)
Contribution		52.3	9.1	12.8	**74.2**	74.6
Performance fees	5	5.8	7.4	(6.5)	**6.7**	(84.4)
C&R accounting policy adjustment[2]	5	43.4	15.4	6.5	**65.3**	–
(Loss)/gain on revaluation of investment properties		(257.5)	(299.8)	(16.6)	**(573.9)**	559.3
(Loss)/profit on sale of investment properties		(0.1)	(16.2)	–	**(16.3)**	10.7
Fair value of interest rate swaps		(11.5)	(6.6)	(2.3)	**(20.4)**	86.3
(Loss)/profit before and after tax (100%)		(167.6)	(290.7)	(6.1)	**(464.4)**	646.5
Balance sheet (100%)						
Investment property	13b	3,111.3	1,196.5	945.2	**5,253.0**	5,567.1
Current assets		178.6	90.2	42.5	**311.3**	293.8
Current liabilities		(179.0)	(36.5)	(42.7)	**(258.2)**	(262.0)
Non-current liabilities		(1,690.8)	(646.0)	(483.3)	**(2,820.1)**	(2,665.6)
Net assets (100%)		1,420.1	604.2	461.7	**2,486.0**	2,933.3
C&R interest at year end		24.24%	27.32%	19.39%		
C&R interest at start of year		24.24%	27.32%	10.59%		
C&R average interest during the year		24.24%	27.32%	18.77%		
Group share of						
Revenue	2b	44.2	15.7	9.9	**69.8**	64.5
Net rents	2b	32.3	12.5	7.5	**52.3**	47.0
Net interest payable	2b	(19.6)	(9.5)	(5.1)	**(34.2)**	(29.7)
Contribution	2b	12.7	3.0	2.4	**18.1**	17.3
Performance fees	2a	1.4	2.0	(1.2)	**2.2**	(20.1)
C&R accounting policy adjustment[2]		10.5	4.2	1.2	**15.9**	–
(Loss)/gain on revaluation of investment properties		(59.3)	(82.0)	(5.2)	**(146.5)**	133.9
(Loss)/profit on sale of investment properties		–	(2.7)	–	**(2.7)**	2.1
Fair value of interest rate swaps		(2.8)	(1.8)	(0.5)	**(5.1)**	20.2
(Loss)/profit for the year		(37.5)	(77.3)	(3.3)	**(118.1)**	153.4
Investment property		754.2	326.9	183.3	**1,264.4**	1,286.8
Current assets		43.2	24.6	8.2	**76.0**	68.0
Current liabilities		(43.4)	(9.9)	(8.3)	**(61.6)**	(58.8)
Non-current liabilities		(409.8)	(176.5)	(93.7)	**(680.0)**	(611.2)
Associate net assets		344.2	165.1	89.5	**598.8**	684.8
Unrealised profit on sale of property to associate		(0.3)	0.9	–	**0.6**	0.6
Group share of associate net assets	18b	343.9	166.0	89.5	**599.4**	685.4

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

2 The results of the three associates above have been adjusted to ensure the consistency of accounting in relation to the estimated repayment of performance fees between the Group and its associates.

18 Associates and joint ventures continued

18d Investment in joint ventures

	Note	30 December 2007 £m	30 December 2006 £m
At the beginning of the year		**67.6**	49.8
Net assets disposed of on sale of Xscape Milton Keynes and Xscape Castleford to X-Leisure Fund		**(51.3)**	–
Investment in joint ventures		**3.3**	8.1
Dividends and capital distributions receivable		**(6.5)**	(1.5)
Share of results	18a, e	**(1.1)**	11.2
At end of the year	18e	**12.0**	67.6

18e Analysis of investment in joint ventures

	Note	Xscape Braehead Partnership[3] £m	Manchester Arena £m	Others[1,2] £m	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Income statement (100%)						
Revenue		4.0	5.3	1.5	**10.8**	13.2
Property expenses		(0.7)	(1.2)	(0.6)	**(2.5)**	(2.8)
Management expenses		(0.2)	–	(0.1)	**(0.3)**	(0.3)
Net rents		3.1	4.1	0.8	**8.0**	10.1
Net interest payable		(3.8)	(3.1)	(0.7)	**(7.6)**	(8.8)
Contribution		(0.7)	1.0	0.1	**0.4**	1.3
(Loss)/gain on revaluation of investment properties		(5.7)	(2.5)	0.1	**(8.1)**	13.8
Income and fair value movements on financial assets		–	–	4.8	**4.8**	5.5
Fair value of interest rate swaps		(0.4)	(0.3)	–	**(0.7)**	2.9
(Loss)/profit before and after tax (100%)		(6.8)	(1.8)	5.0	**(3.6)**	23.5
Balance sheet (100%)						
Investment property	13b	71.4	67.3	28.9	**167.6**	320.7
Current property assets		–	–	–	**–**	0.5
Current assets		13.3	4.5	9.7	**27.5**	42.9
Other financial assets		–	–	0.4	**0.4**	–
Current liabilities		(8.0)	(5.3)	(9.8)	**(23.1)**	(29.6)
Non-current liabilities		(67.0)	(47.5)	(26.4)	**(140.9)**	(198.0)
Net assets (100%)		9.7	19.0	2.8	**31.5**	136.5
C&R interest at year end		50.00%	30.00%	50-66.67%		
C&R interest at start of year		50.00%	30.00%	50-66.67%		
C&R average interest during the year		50.00%	30.00%	50-66.67%		
Group share of						
Revenue	2b	2.0	1.6	0.9	**4.5**	6.9
Net rents	2b	1.5	1.2	0.4	**3.1**	5.2
Net interest payable	2b	(1.9)	(0.9)	(0.4)	**(3.2)**	(4.9)
Contribution	2b	(0.4)	0.3	–	**(0.1)**	0.3
(Loss)/gain on revaluation of investment properties		(2.9)	(0.8)	0.6	**(3.1)**	6.8
Income and fair value movements on financial assets		–	–	2.4	**2.4**	2.7
Fair value of interest rate swaps		(0.2)	(0.1)	–	**(0.3)**	1.4
(Loss)/profit before and after tax		(3.5)	(0.6)	3.0	**(1.1)**	11.2
Investment property		35.7	20.2	14.4	**70.3**	158.3
Current property assets		–	–	–	**–**	0.3
Current assets		6.7	1.4	4.8	**12.9**	21.5
Other financial assets		–	–	0.2	**0.2**	–
Current liabilities		(4.0)	(1.6)	(4.9)	**(10.5)**	(16.1)
Non-current liabilities		(33.5)	(14.3)	(13.1)	**(60.9)**	(96.4)
Group share of joint venture net assets	18d	4.9	5.7	1.4	**12.0**	67.6

18 Associates and joint ventures continued

1 Principally the other joint ventures are at Glasgow Fort with British Land plc (C&R share 50%) and at Cardiff, but also includes the results of Xscape Milton Keynes and Xscape Castleford up to the date of sale to the X-Leisure Fund (23 February 2007).
2 Since the date of sale in 2004 of its interest in Glasgow Fort the Group has received a total of £8.4 million further profits from its remaining interest in the joint venture. Further profits are potentially receivable and are largely dependent upon planning consent being obtained for future phases of the development and the letting of units at above target rents. We have also given certain rental guarantees for a five year period and have made provision for the amounts which we expect to pay in respect of these. We have estimated our share of the fair value of the right to receive these future profits at 30 December 2007 at £0.2 million. The value reflects our assessment of the considerable uncertainty surrounding the receipt of further amounts and the fact that there is no ready market for such assets. In accordance with current accounting standards we have recognised this right as a financial asset in our 30 December 2007 balance sheet. In prior years we have disclosed the right as a contingent asset. We estimate that the value of the asset at 30 December 2006 would have been £1.2 million. The effect of this accounting change in our 2007 financial statements is not considered material to our prior year results.
3 The Braehead centre was opened in April 2006 but problems were encountered with the cinema's ceiling, which have required significant repair work. The cinema opened in October 2007. Some of the costs associated with the additional repair works are being sought from the main contractors and the possibility of claiming other costs from the arising delay is also being pursued.

19 Cash and cash equivalents

	30 December 2007 £m	30 December 2006 £m
Cash at bank	**36.5**	34.1
Security deposits held in rent accounts	**0.6**	1.4
	37.1	35.5

Analysis by currency	**30 December 2007 £m**	30 December 2006 £m
Sterling	**22.0**	15.4
Euro	**15.1**	20.1
	37.1	35.5

20 Current payables

	Note	**30 December 2007 £m**	30 December 2006 £m
Bank loans – secured	23a	**0.2**	0.2
Trade payables		**3.6**	10.2
Accruals and deferred income		**32.6**	30.0
Payable to joint ventures and associates		**42.3**	2.3
Other payables		**14.9**	12.0
Other taxation and social security		**8.8**	14.7
		102.4	69.4

21 Non-current payables

	Note	**30 December 2007 £m**	30 December 2006 £m
Other payables		**2.0**	0.8
Minority interest classified as a liability	22	**13.0**	9.3
Accruals and deferred income		**2.5**	22.7
		17.5	32.8

22 Minority interest

The minority interest, arising from the Group's German operations, is classified as a liability. Under the terms of the contract the minority has a put option to sell their share back to the Group typically after five years from acquisition.

	Note	**30 December 2007 Total £m**	30 December 2006 Total £m
As at 31 December 2006 at closing rate		**10.1**	4.1
Exchange movement		**(0.8)**	–
As at 31 December 2006		**9.3**	4.1
Financing income	7	**1.9**	2.6
Dividend received		**(1.4)**	(0.7)
Arising on acquisition	32	**3.2**	3.3
As at 30 December	21	**13.0**	9.3

23a Borrowings

	Note	Bank loans £m	CULS £m	**30 December 2007 Total £m**	Bank loans £m	CULS £m	30 December 2006 Total £m
Unsecured		60.8	–	**60.8**	17.0	1.3	18.3
Secured							
Fixed and swapped bank loans		522.6	–	**522.6**	382.5	–	382.5
Variable rate bank loans		41.4	–	**41.4**	59.6	–	59.6
Total borrowings before costs	23 b,d,e	624.8		**624.8**	459.1	1.3	460.4
Less unamortised issue costs		(2.2)	–	**(2.2)**	(2.1)	–	(2.1)
Total borrowings after costs		622.6	–	**622.6**	457.0	1.3	458.3
Analysis of total borrowings after costs							
Current	20,23b	0.2	–	**0.2**	0.2	–	0.2
Non-current		622.4	–	**622.4**	456.8	1.3	458.1
Total borrowings after costs		622.6	–	**622.6**	457.0	1.3	458.3

Security for secured borrowings as at 30 December 2007 is provided by charges on property.

23b Maturity

	Note	Bank loans £m	CULS £m	**30 December 2007 £m**	30 December 2006 £m
After five years		159.8	–	**159.8**	38.3
From two to five years		444.6	–	**444.6**	270.9
From one to two years		20.2	–	**20.2**	151.0
Due after more than one year		624.6	–	**624.6**	460.2
Current	23a	0.2	–	**0.2**	0.2
	23 a,d,e	624.8	–	**624.8**	460.4

23c Undrawn committed facilities

	30 December 2007 £m	30 December 2006 £m
Expiring within one year	**–**	–
Expiring between one and two years	**–**	2.3
Expiring after more than two years	**135.2**	118.5
	135.2	120.8

23d Interest rate and currency profile

2007	Note	%	Years	Fixed and swapped rate borrowings £m	Floating rate borrowings £m	**30 December 2007 Total £m**
Sterling		85	2	228.3	41.4	**269.7**
Euro		100	5	355.1	–	**355.1**
	23 a,b,e			583.4	41.4	**624.8**

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

23e Rates at which interest is charged on borrowings

	Note	**30 December 2007 £m**	30 December 2006 £m
Up to 5%		**213.4**	188.0
5% to 6%		**277.7**	211.5
Over 6%		**92.3**	1.3
		583.4	400.8
Variable rates		**41.4**	59.6
	23 a,b,d	**624.8**	460.4

Floating rate borrowings bear interest based on three month LIBOR.

24 Convertible Subordinated Unsecured Loan Stock

In 1996 the Company issued £26 million of Convertible Unsecured Loan Stock ("CULS"). Under IFRS these are accounted for as part debt and part equity. Interest is charged on the debt at an effective rate of 11.25%, being the prevailing market interest rate for similar non-convertible debt at the date of issue of the CULS, of which 6.75% is paid as a coupon and the balance rolled up in to the value of the debt.

Since 1996 all of the CULS have either been converted or bought back in the market by the Group. At 30 December 2007 and at the date of this report, CULS with a nominal value of £nil (2006: £1.7 million) remained.

The balance sheet contains the following balances relating to CULS:

	Note	**30 December 2007 £m**	30 December 2006 £m
Nominal value of CULS		**–**	1.7
Equity component (net of deferred tax)		**–**	(0.5)
Deferred tax liability		**–**	(0.1)
		–	1.1
Net interest		**–**	0.2
Liability component at balance sheet date	23 a,b	**–**	1.3

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

25 Financial instruments and risk management

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

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

Debt management

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

Interest rate management

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

The Group has interest rate swaps of £460 million (2006: £281 million) maturing within the next five years. Under these swaps the Company pays interest at a fixed rate of 4.76% (2006: 4.84%) and receives interest at variable rates linked to LIBOR. At 30 December 2007, the fair value of these swaps was an asset of £1.9 million (2006: £3.4 million).

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

Cash management

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

Credit risk

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

Foreign exchange risk

The Group uses net investment hedging to hedge its exposure to the Euro and its German operations. The Group has entered into a foreign exchange forward contract to hedge its German net assets.

Effective interest rates and financial maturity analysis

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

2007	Note	**Effective interest rate %**	**Total £m**	**Less than one year £m**	**One to two years £m**	**Two to five years £m**	**2007 More than five years £m**
Fixed and swapped bank loans		4.76	583.4	–	12.0	444.6	126.8
Variable rate bank loans		5.94	41.4	0.2	8.2	–	33.0
Interest rate swaps (floating)		–	–	–	–	–	–
CULS	24	11.25	–	–	–	–	–
	23 a,b,d,e		**624.8**	**0.2**	**20.2**	**444.6**	**159.8**

2006	Note	Effective interest rate %	Total £m	Less than one year £m	One to two years £m	Two to five years £m	2006 More than five years £m
Fixed and swapped bank loans		4.84	399.5	–	92.0	270.5	37.0
Variable rate bank loans		6.16	59.6	0.2	59.0	0.4	–
Interest rate swaps (floating)		–	–	–	–	–	–
CULS	24	11.25	1.3	–	–	–	1.3
	23 a,b,d,e		460.4	0.2	151.0	270.9	38.3

25 Financial instruments and risk management continued

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

Fixed and swapped bank loans	Total £m	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
2007	**583.4**	**81.5**	**–**	**419.6**	**82.3**
2006	399.5	–	75.0	270.5	54.0

The bank loans except for the £61 million (2006: £17 million) working capital facility are secured on specific properties owned by the Group.

Fair values of financial instruments

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

	Notional principal £m	2007 Book value £m	2007 Fair value £m	2006 Book value £m	2006 Fair value £m
Financial liabilities not at a fair value through profit or loss					
CULS		**–**	**–**	1.3	1.6
On balance sheet euro denominated fixed rate loans		**129.0**	**124.6**	118.6	115.5
On balance sheet sterling denominated loans		**269.7**	**269.7**	176.7	176.7
On balance sheet euro denominated swaps		**226.1**	**226.1**	163.8	163.8
Total on balance sheet financial liabilities		**624.8**	**620.4**	460.4	457.6
Group share of associates (our share)		**683.1**	**683.1**	597.8	597.8
Group share of joint ventures (our share)		**54.8**	**54.8**	95.7	95.7
Total borrowings		**1,362.7**	**1,358.3**	1,153.9	1,151.1
Financial derivatives at fair value through profit or loss					
Interest rate euro swaps (our share)	**208.9**	**3.2**	**3.2**	1.2	1.2
Interest rate sterling swaps (our share)	**808.1**	**8.6**	**8.6**	15.8	15.8
Foreign exchange contract	**84.3**	**–**	**–**	–	–

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

Details of the Group's cash and deposits are set out in note 19. Their fair values and those of other financial assets and liabilities equate to their book values.

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

26 Called up share capital

	Number of shares issued and fully paid 2007 Number	2006 Number	Nominal value of shares issued and fully paid 2007 £000	2006 £000
Ordinary shares of 10p each				
At beginning of year	**72,388,723**	71,000,465	**7,239**	7,100
Repurchase and cancellation of shares	**(1,442,598)**	–	**(144)**	–
Issued on exercise of share options	**50,000**	163,151	**5**	16
Issued on conversion of CULS	**52,838**	1,225,107	**5**	123
At end of year	**71,048,963**	72,388,723	**7,105**	7,239

	Authorised 2007 Number	2006 Number
Ordinary shares of 10p each	**150,000,000**	150,000,000

Share Options

The options to subscribe for new ordinary shares of 10p each under the share option schemes that were outstanding at 30 December 2007 are as follows:

	30 December 2007 Number of shares	Subscription price	30 December 2006 Number of shares	Subscription price
Period within which options are exercisable:				
15 May 2001 to 15 May 2008	**289,500**	**279.5p**	289,500	279.5p
22 May 2001 to 22 May 2008	**10,470**	**286.5p**	10,470	286.5p
23 February 2002 to 23 February 2009	**40,000**	**191.5p**	40,000	191.5p
22 February 2003 to 22 February 2010	**–**	**201.5p**	–	201.5p
13 September 2003 to 13 September 2010	**100,000**	**211.5p**	150,000	211.5p
	439,970		489,970	

During the year 50,000 share options were exercised (2006:163,151), with a weighted average exercise price of £2.115 (2006: £2.22). The weighted average share price at exercise was £15.34 (2006: £8.13). No options expired or were forfeited during the year (2006: nil).

The weighted average fair value of the outstanding share options was £2.56 (2006: £2.52).

Long-Term Incentive Plan

Outstanding LTIP awards	Opening	Number of shares Awarded	Exercised	Lapsed	Closing
2002 awards	79,459	–	(79,459)	–	–
2003 awards	498,750	–	(462,500)	(36,250)	–
2004 awards	466,335	–	(417,335)	(49,000)	–
2005 awards	333,854	–	–	–	333,854
2006 awards	267,785	–	–	–	267,785
2007 awards	–	200,794	–	–	200,794
	1,646,183	200,794	(959,294)	(85,250)	802,433

At 30 December 2007, 904,905 (2006: 1,322,240) shares were held by an Employee Share Ownership Trust (“ESOT”), to enable the Group to meet the above outstanding LTIP shares awarded. The market value of these shares was £3,547,228 (2006: £20,388,940). The rights to receive dividends on these shares has been waived.

The weighted average fair value of the LTIP awards at grant was £10.98 (2006: £6.52).

26 Called up share capital continued

ESOT shareholding	Number of shares 2007	Number of shares 2006
At 31 December	**1,322,240**	1,244,771
Purchased in year	**–**	619,428
Exercised/vested in year	**(417,335)**	(541,959)
At 30 December	**904,905**	1,322,240

In calculating the charge in the income statement for the LTIP award the following key assumptions were used:

1. 50% Total return which vests in line with historic out performance and low staff turnover
2. 50% Total shareholder return which was derived by using the normal distribution of performance relative to the FTSE real estate index. Calculation inputs are shown in the following table:

	Probability	Vesting %	Value %
1st quartile	11	–	–
2nd quartile	39	–	–
3rd quartile	39	0 – 50	12.0
4th quartile	11	50	5.0
Total			17.0

27 Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total £m
As at 31 December 2005	216.9	0.4	11.2	4.3	(1.4)	469.2	700.6
Exchange differences	–	–	(0.7)	–	–	–	(0.7)
Shares issued at premium	0.3	–	–	–	–	–	0.3
Revaluation of owner-occupied property	–	2.3	–	–	–	–	2.3
Purchase of own shares	–	–	–	–	(8.3)	–	(8.3)
Arising on CULS conversion/repurchase	2.3	–	(0.8)	–	–	–	1.5
Amortisation and other movement	–	–	(0.1)	–	–	–	(0.1)
Credit in respect of LTIP charge	–	–	–	–	–	2.1	2.1
Amortisation of cost of own shares	–	–	–	–	2.8	(2.8)	–
Dividends paid	–	–	–	–	–	(14.1)	(14.1)
Profit for the year	–	–	–	–	–	222.3	222.3
As at 31 December 2006	219.5	2.7	9.6	4.3	(6.9)	676.7	905.9
Exchange differences	–	–	2.0	–	–	–	2.0
Shares issued at premium	0.2	–	–	–	–	–	0.2
Share buy back and cancellation	–	–	–	0.1	–	(17.2)	(17.1)
Revaluation of owner-occupied property	–	(0.3)	–	–	–	–	(0.3)
Arising on CULS conversion	–	–	(0.6)	–	–	(8.4)	(9.0)
Amortisation of IFRS 1 reserve	–	–	(0.1)	–	–	–	(0.1)
Credit in respect of LTIP charge	–	–	–	–	–	0.2	0.2
Amortisation of cost of own shares	–	–	–	–	(1.8)	1.8	–
Dividends paid	–	–	–	–	–	(19.1)	(19.1)
(Loss) for the year	–	–	–	–	–	(166.8)	(166.8)
As at 30 December 2007	**219.7**	**2.4**	**10.9**	**4.4**	**(8.7)**	**467.2**	**695.9**

28 Other reserves

	CULS equity reserve[1] £m	Acquisition reserve[2] £m	IFRS reserve[3] £m	Foreign currency reserve £m	Net investment hedging reserve £m	Total £m
As at 31 December 2005	1.4	9.5	0.3	–	–	11.2
Amortisation	–	–	(0.1)	–	–	(0.1)
Arising on CULS conversion	(0.8)	–	–	–	–	(0.8)
Exchange differences	–	–	–	(0.7)	–	(0.7)
As at 31 December 2006	0.6	9.5	0.2	(0.7)	–	9.6
Amortisation	–	–	(0.1)	–	–	(0.1)
Arising on CULS conversion	(0.6)	–	–	–	–	(0.6)
Exchange differences	–	–	–	7.6	(5.6)	2.0
As at 30 December 2007	**–**	**9.5**	**0.1**	**6.9**	**(5.6)**	**10.9**

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

2 The acquisition reserve relates to the acquisition of the remaining 50% of Morrison Merlin in 2005. Prior to the 2005 acquisition Morrison Merlin was a joint venture in which Capital & Regional had a 50% interest. The acquisition reserve arose from the difference between the fair value of the Company's existing 50% interest and the carrying value of that interest at the date of acquisition of the outstanding 50%. The reserve which will remain in the balance sheet until Morrison Merlin is sold.

3 IFRS reserve relates to the requirements of IFRS 1. Where cash flow hedge accounting was being applied under a previous GAAP, IFRS 1 requires reserves are debited with the fair value of hedging derivatives at the date of transition for the Group to IFRS (31 December 2004). The entire gain or loss has been taken to equity and will be recycled to the income statement when the hedged transaction impacts profit or loss or as soon as the hedged transaction is no longer expected to occur. As the hedged transactions are still expected to occur, amounts remain in the reserve.

29 Reconciliation of net cash generated from operations

	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
(Loss)/profit on ordinary activities before financing	**(130.9)**	274.5
Adjusted for:		
Share of profit in joint ventures and associates	**119.2**	(164.6)
(Loss)/gain on revaluation of investment properties	**14.8**	(26.0)
(Profit)/loss on sale of trading and development properties	**(0.2)**	1.5
Profit on sale of investments	**(1.5)**	–
Depreciation of other fixed assets	**0.5**	0.3
Amortisation of short leasehold properties	**0.1**	0.1
Amortisation of tenant incentives	**0.7**	(0.9)
Profit on sale of investment properties	**(0.1)**	(6.0)
Decrease/(increase) in receivables	**58.4**	(3.3)
Increase in payables	**2.6**	6.9
Unrealised loss on exchange	**(1.2)**	4.9
Non-cash movement relating to the LTIP	**0.2**	2.1
Net cash generated from operations	**62.6**	89.5

30 Net assets per share

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

	30 December 2007			30 December 2006
	Net assets £m	Number of shares m	Net assets per share £	Net assets per share £
Basic	703.0	71.1	9.89	12.61
Own shares held	–	(0.9)		
Fair value of fixed rate loans (net of tax)	3.2	–		
Fair value of trading properties	1.6	–		
Dilutive share options	1.1	0.4		
Triple net diluted net assets per share	708.9	70.6	10.04	12.72
Exclude fair value of derivatives not designated as financial instruments (net of tax)	(8.5)	–		
Exclude fair value of fixed rate loans (net of tax)	(3.2)	–		
Exclude deferred tax on unrealised gains and capital allowances	14.7	–		
EPRA diluted net assets per share	711.9	70.6	10.08	12.75

31 Return on equity

	30 December 2007 Total £m	30 December 2006 Total £m
Total recognised income and expense attributable to equity shareholders	(165.1)	223.9
Opening equity shareholders' funds	913.1	707.7
Return on equity	(18.1)%	31.6%

32 Acquisitions

During the year the Group acquired, at different dates, the issued share capital of the following entities for a combined cash consideration of £39.4 million.

Entity name	Date of acquisition	% of share capital acquired
Lauchhammer KG	15 March 2007	85.4%
Kreuztal KG	30 April 2007	79.8%
Hameln KG	30 May 2007	85.4%
Taufkirchen II KG	3 September 2007	85.4%
Landmark Limited	12 January 2007	100.0%

All of the above are property investment entities.

32 Acquisitions continued

	Note	Aggregate book values at acquisition £m	Fair value adjustments £m	Fair value acquired £m
Fair value of assets acquired				
Investment properties		36.6	24.3	60.9
Debtors		0.3	–	0.3
Cash and cash equivalents		1.0	–	1.0
Current liabilities		(5.0)	–	(5.0)
Non-current liabilities		(31.2)	–	(31.2)
Net assets acquired		1.7	24.3	26.0
Fair value of consideration				
Cash				39.4
Repayment of non current liabilities				(16.6)
Minority interest	22			3.2
				26.0

Set out below are the aggregated results of all the entities acquired from the dates of acquisition to 30 December 2007.

	Aggregate results from date of acquisition to 30 December 2007 £m	Other Group results for the year ended 30 December 2007 £m	Total results for the Group for the year ended 30 December 2007 £m
Revenue per consolidated income statement	**2.1**	**84.7**	**86.8**
Profit/(loss) before tax	**0.4**	**(167.4)**	**(167.0)**
Taxation expense	**–**	**0.2**	**0.2**
Profit/(loss) after tax	**0.4**	**(167.2)**	**(166.8)**

If the acquisitions above had been completed on the first day of the financial year, Group revenues for the year would have been increased by £0.9 million to £87.7 million and Group loss attributable to equity holders of the parent company would have been decreased by £0.2m to £166.6 million.

33 Disposals

On 23 February 2007 the Group disposed of its 50% interest in Xscape Milton Keynes Partnership and its 66.67% interest in Xscape Castleford Partnership. The net assets of the two Partnerships at the date of disposal and at 30 December 2006 were as follows:

	Xscape Milton Keynes Partnership £m	Xscape Castleford Partnership £m	**23 February 2007 £m**	30 December 2006 £m
Investment property	116.3	76.0	**192.3**	177.0
Trade receivables	0.5	2.2	**2.7**	9.5
Bank balance and cash	0.6	0.5	**1.1**	3.0
Trade payables	(1.3)	(2.3)	**(3.6)**	(12.3)
Non-current payables	(46.8)	(51.1)	**(97.9)**	(92.3)
Attributed goodwill			**–**	–
	69.3	25.3	**94.6**	84.9
Gain on disposal			**–**	
Total consideration – 100%			**94.6**	
Group share	34.6	16.8	**51.4**	
Satisfied by:				
Cash			**–**	
Units in X-Leisure Fund			**53.9**	
Total consideration			**53.9**	
Net inflow arising on disposal:				
Cash consideration			**–**	
Cash and cash equivalents disposed of			**1.1**	
			1.1	

34 Operating lease arrangements

The Group as lessee

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

	Land and buildings		Other operating leases	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Within one year	**0.1**	–	**2.4**	2.4
In the second to fifth years inclusive	**0.2**	0.2	**9.1**	9.7
After five years	**6.0**	6.1	**47.2**	50.7
	6.3	6.3	**58.7**	62.8

There were no contingent rents (2006: £nil). During the year the Group made sublease payments of £42,000 (2006:£30,000) and incurred lease payments recognised as an expense of £0.5 million (2006: £0.4 million)

Operating lease payments represent rentals payable by the Group for certain of its office properties and equipment. Leases are negotiated for an average of 119 years (2006: 122 years) and rentals are fixed for an average of four years (2006: four years).

34 Operating lease arrangements continued

The Group as lessor

The Group leases out all of its investment properties under operating leases for average lease terms of 12 years (2006: 13 years) to expiry. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

100% figures	Unexpired average lease term Years	Less than one year £m	Between two to five years £m	Between six to ten years £m	Between 11 to 15 years £m	Between 16 to 20 years £m	After 20 years £m	**30 December 2007 Total £m**	30 December 2006 Total £m
Mall	10.2	173.3	555.0	405.9	135.0	79.8	444.0	**1,793.0**	1,881.9
Junction	12.6	56.3	223.4	234.1	170.7	62.6	10.8	**757.9**	835.7
X-Leisure	17.6	50.7	195.5	231.2	214.2	102.4	46.7	**840.7**	676.0
Total associates		280.3	973.9	871.2	519.9	244.8	501.5	**3,391.6**	3,393.6
Joint ventures		3.2	17.2	21.2	19.1	14.5	23.0	**98.2**	218.9
Germany	8.7	30.4	109.0	76.5	33.4	11.4	1.5	**262.2**	248.4
FIX UK	8.1	9.1	35.8	26.5	10.3	4.5	0.5	**86.7**	35.1
Other wholly owned		7.2	27.7	33.5	24.2	5.1	1.8	**99.5**	102.1
Total wholly owned		46.7	172.5	136.5	67.9	21.0	3.8	**448.4**	385.6
Total		330.2	1,163.6	1,028.9	606.9	280.3	528.3	**3,938.2**	3,998.1

35 Capital commitments

As at 30 December 2007 the Group had capital commitments of £10 million (2006: £13.6 million), relating to the acquisition of two trade parks by FIX UK.

As at 30 December 2006 the Group's share of capital commitments of joint ventures and associates was £14.3 million (2006: £24.2 million). This comprised £11.8 million related to the joint venture at Cardiff and £2.5 million related to the Junction. On 22 January 2008 the X-Leisure Fund exchanged on a conditional contract to purchase land in Bournemouth.

36 Contingent liabilities

CRPM's property management agreements provide that the amount of negative performance fees in any year is limited to the amount paid for the previous two years. The Fund and the Group are jointly seeking clarification on how this limit is applied. On present forecasts and an alternative interpretation of the agreement, CRPM could be exposed to a further £17 million over and above the amount already provided in these accounts. After offsetting the benefit C&R gets as an investor in the Funds and the reduction in management incentives, the net impact would be £6.7 million or 9.5p per share.

The Group has given certain guarantees that relate to interest shortfalls and cost overruns in connection with certain subsidiaries and both the joint ventures at Cardiff and Braehead. The fair value of these guarantees is £1.2 million.

37 Events after the balance sheet date

On 6 March 2008 the Group sold 80% of the units it owned in the T3 Jersey Property Unit Trust for approximately £35 million gross. The transaction has removed £180 million of investment property and £120 million of debt from the Group's balance sheet, although it remains exposed to 20% of this amount as a co-investor. Capital & Regional will asset manage the portfolio jointly with Paradigm Real Estate Managers and have a director on the General Partner Board.

On 10 March 2008 the Group announced the departure of the current Chief Executive Officer (CEO) Martin Barber and the appointment of a new CEO Hugh Scott-Barrett with effect from 1 April 2008. Details of Martin Barber's termination agreement are disclosed in the directors' remuneration report on page 30.

On 20 March 2008 the Junction Fund completed on the sale of Great Western Retail Park for £58.5 million.

38 Related party transactions

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

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

CRPM	Management and performance fees receivable from/(payable to) related parties 2007 £m	2006 £m	Amounts owed by/(to) related parties 2007 £m	2006 £m
Associates				
The Mall Limited Partnership	**(22.5)**	50.8	**(34.4)**	37.9
The Junction Limited Partnership	**(10.9)**	23.1	**(0.2)**	16.1
X-Leisure Limited	**7.0**	17.1	**2.1**	11.6
Joint ventures				
Xscape Milton Keynes Partnership	**–**	0.1	**–**	–
Xscape Castleford Partnership	**–**	0.1	**–**	–
Xscape Braehead Partnership	**0.1**	0.2	**–**	–

SNO!zone Limited and SNO!zone Braehead limited

Joint ventures	Rents payable to related parties 2007 £m	2006 £m	Amounts owed to related parties 2007 £m	2006 £m
Xscape Milton Keynes Partnership	**0.7**	0.7	**–**	–
Xscape Castleford Partnership	**0.6**	0.6	**–**	–
Xscape Braehead Partnership	**0.7**	0.5	**–**	–

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

On 23 February 2007 the Group sold its 50% ownership of Xscape Milton Keynes Partnership and 66.67% ownership of Xscape Castleford Partnership to the X-Leisure Fund in exchange for a further 29.1 million units in the X-Leisure Fund. At the date of sale and at 30 December 2006 the Group had interests of 20.5% and 10.6% respectively in the X-Leisure Fund.

At 30 December 2007 the Group had loans outstanding to Xscape Braehead of £6.1 million (2006: £1.6 million) and to Capital Retail Park Partnership of £1.5 million (2006: £nil).

During 2007 the Group purchased IT and communication equipment from Redstone plc, on normal commercial terms. Alan Coppin was appointed as a director of Redstone plc in June 2006.

All the above transactions occurred at normal commercial rates.

As per IAS 24 key personnel are considered to be the Executive Directors as they are the persons having the authority and responsibility for planning, directing and controlling the activities of the Group. Their remuneration is detailed below.

	Year to 30 December 2007 Total £m	Year to 30 December 2006 Total £m
Short-term employment benefits	**1.5**	3.3
Post employment benefits	**0.2**	0.2
Other long-term benefits[1]	**(0.9)**	1.8
Termination benefits	**0.2**	–
Share-based payments[2]	**0.1**	1.5
	1.1	6.8

1 Other long-term benefits include those amounts relating to the CAP that were awarded to the directors in 2007 as well as those amounts awarded to the directors in 2006 that are expected to be clawed back in line with the claw back of the 2006 performance fees (as per note 5).

2 Share-based payments include those amounts awarded to the directors relating to the LTIP. In 2007, the non-market vesting conditions were not satisfied and hence the Group has reversed the cumulative expense recognised in 2006 in accordance with the requirements of IFRS 2.

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

We have audited the Group financial statements of Capital & Regional plc for the year ended 30 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the reconciliation of movement in equity shareholders funds and the related notes 1 to 38. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of Capital & Regional plc for the year ended 30 December 2007.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements.

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

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 30 December 2007 and of its loss for the year then ended.
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- The part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985.
- The information given in the directors' report is consistent with the Group financial statements.

Separate opinion in relation to IFRS

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

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 30 December 2007 and of its loss for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
10 April 2008

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

We have audited the parent company financial statements of Capital & Regional plc for the year ended 30 December 2007 which comprise the balance sheet and the related notes A to I. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Capital & Regional plc for the year ended 30 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- The parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 December 2007.
- The parent company financial statements have been properly prepared in accordance with the Companies Act 1985.
- The information given in the directors' report is consistent with the parent company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
10 April 2008

Company balance sheet

Prepared in accordance with UK GAAP
As at 30 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Investments	C	**845.6**	787.0
Current assets			
Debtors	D	**143.3**	275.0
Cash and deposits		**0.1**	0.4
		143.4	275.4
Creditors – amounts falling due within one year			
Trade and other creditors	E	**(251.6)**	(285.2)
Short-term bank loans and overdrafts		**(15.1)**	(8.9)
		(266.7)	(294.1)
Net current liabilities		**(123.3)**	(18.7)
Creditors – amounts falling due in more than one year			
Bank loans	F	**(8.2)**	(8.4)
CULS	F	**–**	(1.3)
		(8.2)	(9.7)
Net assets		**714.1**	758.6
Capital and reserves			
Called-up share capital	G	**7.1**	7.2
Share premium account	G	**219.7**	219.5
CULS equity reserve		**–**	0.6
Capital redemption reserve	G	**4.3**	4.3
Retained earnings	G	**483.0**	527.0
Shareholders' funds		**714.1**	758.6

These financial statements were approved by the Board of Directors on 9 April 2008.

W Sunnucks
Group Finance Director
10 April 2008

Notes to the Company accounts

For the year ended 30 December 2007

A Accounting policies

Although the Group consolidated accounts are prepared under IFRS, the Capital & Regional plc company accounts presented in this section are prepared under UK GAAP. The main accounting policies have been applied correctly in the current and prior year.

B Profit for the year

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the year attributable to equity shareholders dealt with in the financial statements of the Company was £0.6 million (2006: £464.7 million).

The Company had no direct employees during the year (2006: nil).

C Investments

	2007 £m
As at 31 December 2006	**787.0**
Additions	**80.1**
Loan guarantees	**1.2**
Impairment of investments	**(22.7)**
As at 30 December 2007	**845.6**

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

D Debtors

	2007 £m	2006 £m
Amounts owed by subsidiary entities	**137.0**	273.4
Amounts owed by associates and joint ventures	**6.2**	0.7
Prepayments and accrued income	**0.1**	0.9
	143.3	275.0

E Creditors – amounts falling due within one year

	2007 £m	2006 £m
Amounts owed to subsidiaries	**248.9**	283.6
Taxation	**0.2**	0.1
Guarantees	**1.2**	–
Other payables	**0.8**	1.1
Accruals and deferred income	**0.5**	0.4
	251.6	285.2

F Creditors – amounts falling due in greater than one year

	Bank loans £m	CULS £m	2007 Total £m	2006 £m
After five years	**–**	**–**	**–**	1.3
From two to five years	**8.2**	**–**	**8.2**	8.4
Due after more than one year	**8.2**	**–**	**8.2**	9.7

Details of the Group's borrowings are given in note 23. The Company's borrowings are all secured and comprise sterling denominated bank loans and CULS.

G Reserves

	Share capital £m	Share premium account £m	CULS reserve £m	Capital redemption reserve £m	Retained earnings £m	Total £m
As at 31 December 2006	7.2	219.5	0.6	4.3	527.0	758.6
Premium on issue of shares	–	0.2	–	–	–	0.2
Shares bought back and cancelled	(0.1)	–	–	–	(17.1)	(17.2)
Arising on conversion of CULS	–	–	(0.6)	–	(8.4)	(9.0)
Dividends paid	–	–	–	–	(19.1)	(19.1)
Retained profit for the year	–	–	–	–	0.6	0.6
As at 31 December 2007	**7.1**	**219.7**	**–**	**4.3**	**483.0**	**714.1**

H Fair value of financial liabilities

	2007 Book value £m	2007 Fair value £m	2006 Book value £m	2006 Fair value £m
Non-current borrowings	**8.2**	**8.2**	9.7	10.0
Current borrowings	**16.3**	**16.3**	9.1	9.1
Total borrowings	**24.5**	**24.5**	18.8	19.1

I Principal subsidiary, joint venture and associated companies

	Nature of property business	Group effective share of business	*Share of voting rights
Capital & Regional Property Management Limited[2]	Management	100%	100%
The Mall Jersey Property Unit Trust[3]	Investment	24.24%	24.24%[1]
The Junction Jersey Property Unit Trust[3]	Investment	27.32%	27.32%[1]
X-Leisure Jersey Property Unit Trust	Investment	19.39%	19.39%[1]
The Auchinlea Partnership	Investment	50%	50%
Capital & Regional Abertawe Limited[2]	Investment and management	100%	100%
Trade Park Unit Trust[3]	Investment and management	100%	100%
The FIX UK Limited Partnership[2]	Investment and management	100%	100%
Capital & Regional Hemel Hempstead Limited[3]	Investment and management	100%	100%
Capital & Regional (Europe LP) Limited[3]	Investment and management	100%	100%
Capital & Regional (Europe LP 2) Limited[3]	Investment and management	100%	100%
Capital & Regional (Europe LP 3) Limited[3]	Investment and management	100%	100%
Capital & Regional (Europe LP 4) Limited[3]	Investment and management	100%	100%
Capital & Regional (Europe LP 5) Limited[3]	Investment and management	100%	100%
Capital & Regional Earnings Ltd[2]	Investment and management	100%	100%
Capital & Regional Income Ltd[2]	Investment and management	100%	100%
Capital & Regional Holdings Ltd[3]	Investment and management	100%	100%
Capital & Regional Capital Partner Ltd[3]	Investment and management	100%	100%
Capital & Regional Overseas Holdings Ltd[3]	Investment and management	100%	100%
Capital & Regional Units LLP[3]	Investment and management	100%	100%
Capital & Regional (Jersey) Limited[3]	Investment and management	100%	100%
Xscape Braehead Partnership[2]	Investment and management	50%	50%
Manchester Evening News Arena Complex Limited	Investment and management	30%	50%[4]
SNO!zone Limited[2]	Trading	100%	100%
SNO!zone (Breahead) Ltd[2]	Trading	100%	100%
Morrison Merlin Limited[2]	Trading	100%	100%

1 Capital & Regional is regarded as having significant influence through its membership of and role on the General Partner Board.
2 Incorporated and operates in Great Britain.
3 Incorporated and operates in Jersey.
4 Capital & Regional treats this entity as a joint venture rather than as an associate, despite owning 30%. This is as a result of joint control by means of equal membership of the management committee, which is the main decision making body.
* This percentage is equivalent to the number of ordinary shares or units held by the Group.

Investment in associates and joint ventures are set out in note 18c and note 18e.

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

Five-year review

for the periods 31 December 2003 to 30 December 2007

	UK GAAP 31 December 2003 £m	UK GAAP 30 December 2004 £m	IFRS 30 December 2005 £m	IFRS 30 December 2006 £m	**IFRS 30 December 2007 £m**
Balance sheet					
Property assets	51.5	83.0	425.8	621.8	**790.0**
Other fixed assets	12.3	12.5	0.7	1.2	**9.0**
Intangible assets	14.5	12.2	12.2	12.2	**12.2**
Investment in joint ventures	56.5	46.7	49.8	67.6	**12.0**
Investment in associates	372.7	477.1	583.7	685.4	**599.4**
Other current assets/(liabilities)	(4.8)	8.2	21.7	(5.9)	**(99.3)**
Cash at bank	4.5	4.4	40.1	35.5	**37.1**
Bank loans greater than one year	(110.1)	(117.8)	(395.7)	(456.8)	**(622.4)**
Convertible Unsecured Loan Stock	(24.5)	(20.4)	(3.0)	(1.3)	**–**
Other long-term liabilities	(5.5)	(11.4)	(27.6)	(46.6)	**(35.0)**
Net assets	367.1	494.5	707.7	913.1	**703.0**
Financed by					
Called up share capital	6.3	6.4	7.1	7.2	**7.1**
Share premium account	165.6	167.4	216.9	219.5	**219.7**
Revaluation reserve	145.2	247.2	0.4	2.7	**2.4**
Other reserves	2.5	1.1	14.1	7.0	**6.6**
Retained earnings	47.5	72.4	469.2	676.7	**467.2**
Capital employed	367.1	494.5	707.7	913.1	**703.0**
Return on equity (%)					
Return on equity	37.6%	37.0%	40.5%	31.6%	**(18.1)%**
Return on equity before exceptional items	37.6%	39.0%	40.5%	31.6%	**(18.1)%**
(Decrease)/increase in NAV per share + dividend	32.8%	36.6%	40.8%	30.8%	**(14.2)%**
Share price increase/(decrease) + dividend	26.0%	72.1%	25.0%	81.0%	**(73.0)%**
Period end share price	403p	695p	868p	1542p	**392p**
Total return					
Total return	101.6	136.0	203.1	223.9	**(165.1)**
Total return before exceptional items	101.6	143.2	203.1	223.9	**(165.1)**
Net assets per share (pence)					
Basic	591p	793p	997p	1261p	**989p**
Triple net diluted	521p	710p	985p	1272p	**1,004p**
EPRA diluted	–	–	1006p	1275p	**1,008p**
Triple net diluted net assets per share growth (%)	32.9%	36.3%	38.7%	29.1%	**(21.1)%**
Gearing (%)	27.0%	22.0%	50.2%	50.0%	**88.0%**
Gearing (%) on a see through basis	129.0%	126.0%	126.0%	125.0%	**190.0%**
Income statement					
Group turnover	39.5	62.4	94.2	132.1	**34.0**
Gross profit	33.0	55.4	83.5	116.6	**14.9**
Profit/(loss) on ordinary activities before financing	55.9	68.8	216.9	274.5	**(131.0)**
Net interest payable	(29.6)	(34.5)	(18.2)	(23.6)	**(36.0)**
Exceptional items	–	(8.2)	–	–	**–**
Profit on ordinary activities before taxation	26.3	26.1	198.7	250.9	**(167.0)**
Taxation	(6.9)	(5.9)	4.0	(28.6)	**0.2**
Profit after tax	19.4	20.2	202.7	222.3	**(166.8)**
Recurring pre tax profit	–	16.6	23.1	32.3	**32.7**
Fully taxed recurring dividend cover (x)	–	–	1.25	1.19	**1.19**
Interest cover (x)	1.63	1.63	1.86	2.14	**1.17**
Earnings per share (pence)					
Basic	31.4p	32.2p	294p	317p	**(236)p**
Diluted	27.3p	28.4p	284p	311p	**(236)p**
EPRA diluted	–	–	33p	46p	**1p**
Dividends per share	9p	14p	18p	26p	**27p**
Dividend cover (x)	3.5	2.2	4.8	1.8	**–**

Glossary of terms

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

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

Contribution comprises Capital & Regional's share of the net rents less net interest arising from Capital & Regional's interests in its joint ventures, associates and wholly-owned entities, including foreign exchange forward points movements.

CULS is the Convertible Subordinated Unsecured Loan Stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property under management (PUM). Valuation of properties for whom CRPM is the asset manager.

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

Recurring pre-tax profit is the sum of Contribution plus management fees, SNO!zone income less SNO!zone expenses, less fixed management expenses.

Recurring pre-tax profit per share is the recurring pre-tax profit divided by the weighted average number of shares less own shares held.

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

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

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

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

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

Total return is the Group's total recognised income for the year as set out in the consolidated statement of recognised income and expense ("SORIE") expressed as a percentage of opening equity shareholders' funds, excluding CULS reserve.

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

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

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

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

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

Portfolio information

Portfolio under management * †

	30 December 2007 £m	30 December 2006 £m	30 December 2005 £m	30 December 2004 £m	31 December 2003 £m
Investment properties	**679**	512	320	83	52
Trading property	**96**	94	94	8	8
The Mall Fund	**3,016**	3,125	2,338	2,099	1,243
The Junction Fund	**1,223**	1,590	1,459	1,010	757
X-Leisure Fund	**947**	807	702	597	501
Other joint ventures	**174**	329	226	226	332
Total	**6,135**	6,457	5,139	4,023	2,893

Properties under management above are shown at valuation, except for trading property which is held at cost.
* Accounting for head leases that are deemed to be finance leases are not included in the above figures.
† The treatment required by IFRS of rent free periods, capital contributions and leasing costs are not included in the above figures.

Fund portfolio information (100% figures)

As at December 2007

	The Mall	The Junction	X-Leisure	German Portfolio	FIX UK
Physical data					
Number of core properties	24	14	19	50	49
Number of lettable units	2,504	223	365	193	241
Lettable space – (sq ft – '000s)	8,661	3,365**	3,677	5,044	1,585
Valuation data					
Properties at market value (£m)*	3,016	1,223	947	490	170
Revaluation in the year (£m)	(257.5)	(299.8)	(16.6)	9.6	(24.1)
Initial Yield (%)	4.84%	4.37%	5.06%	5.99%	5.26%
Equivalent yield (%)	5.69%	5.32%	5.78%	n/a	6.26%
Geared returns (%)	(13.20)%	(34.00)%	(3.00)%	16.20%	(32.99)%
Property level return (%)	(3.30)%	(16.78)%	2.10%	7.50%	(9.84)%
Reversionary %	15.66%	11.67%	4.42%	n/a	14.44%
Loan to value ratio (%)	51.67%	53.05%	49.10%	72.46%	70.37%
Lease Data	Years	Years	Years	Years	Years
Average lease length to break	9.87	11.96	16.60	8.66	8.05
Average lease length to expiry	10.23	12.58	17.60	8.66	9.70
Passing rent of leases expiring in:	£m	£m	£m	£m	£m
2008	19.37	0.48	1.51	0.52	1.20
2009	5.50	0.41	0.43	2.30	0.63
2010-2012	31.02	1.82	1.86	3.99	1.05
ERV of leases expiring in:					
2008	21.49	0.49	1.61	n/a	1.27
2009	6.24	0.40	0.56	n/a	0.84
2010-2012	31.62	2.24	1.91	n/a	1.19
Passing rent subject to review in:					
2008	31.28	13.57	14.60	n/a	1.82
2009	15.56	12.98	2.70	n/a	1.36
2010-2012	45.39	26.95	13.77	n/a	4.33
ERV of passing rent subject to review in:					
2008	33.22	15.24	16.95	n/a	2.10
2009	18.49	14.91	2.93	n/a	1.60
2010-2012	49.54	29.64	17.57	n/a	4.80
Rental Data					
Passing rent (£m)	£174.5m	56.56	50.67	30.75	9.24
Estimated rental value (£m per annum)	£201.8m	66.93	58.18	n/a	11.02
Rental Increase (ERV) %	5.50%	(1.75)%	2.02%	n/a	3.26%
Vacancy rate (%)	5.86%	5.18%	3.26%	1.29%	8.46%
Like for like net rental income (100%)					
Current year net rental income	£m	£m	£m	£m	£m
Properties owned throughout 2006/2007	110.7	31.5	36.5	10.0	3.7
Acquisitions	22.7	–	7.0	14.9	3.9
Disposals	–	2.5	0.2	–	–
Total net rental income	**133.4**	**34.0**	**43.7**	**24.9**	**7.6**
Prior year net rental income					
Properties owned throughout 2006/2007	107.7	29.9	39.1	9.8	3.6
Acquisitions	16.8	–	–	1.7	0.6
Disposals	0.9	8.6	0.3	–	0.1
Total net rental income	**125.4**	**38.5**	**39.4**	**11.5**	**4.3**
Other Data					
Unit Price (£1.00 at inception)	£2.0642	£1.8704	£1.6775	n/a	n/a
C&R Share	24.2%	27.3%	19.4%	91.4%	100.0%

* Excludes IFRS adjustments for tenant incentives and head leases treated as finance leases.

** Excludes 35% of Junction West Thurrock Retail Park.

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Registered number
1399411

Shareholder information

2008 financial calendar

Final dividend record date	18 April 2008
Annual General Meeting	2 June 2008
Final dividend payment	13 June 2008
Interim results	28 August 2008
Interim dividend	October/November 2008
2008 preliminary results announcement	March 2009

Final dividend 2007 timetable

Record date	18 April 2008
Last day to receive DRIP mandates	30 May 2008
Dividend warrants posted	12 June 2008
Payment date/shares purchased	13 June 2008
Certificates/purchase statements dispatched	18 June 2008
CREST accounts credited	19 June 2008

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