Capital & Regional plc

Interim report 2005

Capital & Regional . . . what we do

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

Contents

Highlights

- Property under management increased from £4.0 billion to £4.6 billion over the six month period. (June 2004: £3.2 billion)
- Total return on equity before exceptional items was 12.0%, despite removal of SDLT relief in disadvantaged areas, for the six month period (June 2004: 15.6%*)
- Adjusted fully diluted net asset value per share increased by 12.5% to 799p over the six month period (December 2004: 710p)
- Recurring pre-tax profit £9.8 million** (June 2004: £7.8 million)
- Interim dividend increased by 40% to 7p (June 2004: 5p)
- Loss before tax of £27.1 million after exceptional items of £46.9 million (June 2004: £17.4 million profit)

* Note 12
** Note 2

Believe it or not, this is good news – see page 2

Track record

	NAV per share	Dividend per share
December 1996	220p +19%	3.0p +20%
December 1997	272p +24%	3.5p +17%
December 1998	317p +16%	4.25p +21%
December 1999	370p +17%	5.0p +18%
December 2000	350p -5%	5.5p +10%
December 2001	336p -4%	6.0p +11%
December 2002	392p +17%	7.0p +17%
December 2003	521p +33%	9.0p +29%
December 2004	710p +36%	14.0p +56%
June 2005	799p +12.5%*	7.0p +40%*

* Six months only

Chief Executive's statement

Our business has continued to perform strongly during the first six months. The funds have continued to grow, property-by-property business plans are being implemented and the returns have been highly satisfactory.

Return on equity, before exceptional items, was 12.0% for the six month period (see note 12) and our adjusted fully diluted NAV per share grew from 710p to 799p.

Drivers of total return	%
Underlying return	8.2
Yield shift	8.1
No SDLT relief in disadvantaged areas	(4.3)
Total return before exceptional items	12.0

Our return on equity, before exceptional items, would have been 16.2% had it not been for the Government's decision to remove Stamp Duty Land Tax (SDLT) relief from disadvantaged areas. Our valuers immediately deducted 4% or £21 million from the value of all our property interests in disadvantaged areas reflecting the need for the purchaser to pay the SDLT.

Our recurring pre-tax profit has increased from £7.8 million to £9.8 million or 13.8p per share. This measure, which excludes the impact of performance fees and associated variable costs, gives us confidence to increase our interim dividend from 5p to 7p.

Our profit before tax and exceptional items is £20 million, before an exceptional charge of £47 million. This is because we have been buying back our Convertible Unsecured Loan Stock at a higher price than the original issue price, and writing off the premium.

The transaction is beneficial to shareholders because the number of CULS which can be converted into ordinary shares falls, and the premium paid is tax deductible.

The funds

Fund performance in period to 30 June 2005 (six months)

	Geared return %	Ungeared return %
Mall	6.70	6.00
Junction	8.13	6.60
X-Leisure	8.20	6.30

Mall Fund: whilst there is no doubt that growth in retail sales both in volume and value are weaker than 2004, we have been generally pleased with the performance of our shopping centres. Interestingly, quality space that has become available either through increasing corporate activity or retailer failure has been readily taken up. While some high profile tenants have suffered, the occupier market is selective and dynamic. Our vacancies have grown from 3.5% to 5.0%, of which almost 40% are deliberate and are a consequence of developments and reconfigurations associated with our active Mall business plans.

The Fund has recently welcomed three new institutional investors, making a total of 32 investors. We continue to see clear evidence of the benefits of scale. This was particularly evident in the first half of the year when the quality, scale and diversity of the Mall's tenant base enabled £1,066,000,000 of its debt to be securitised as Mall Bonds at a much reduced interest margin of 18bps. The resulting saving of £6 million per annum will flow through directly to investors as increased distributions. The entire issue was rated triple A by all three rating agencies, which re-affirms the quality of both the portfolio and the Mall business.

During the half year the Fund grew from £2.1 billion to £2.3 billion, due to the acquisition of a shopping centre at Main Square Camberley and valuation uplifts totalling £70 million (+3.3%). This surplus was partly caused by yield shift of around 23bps. As with all our funds the surplus was reduced by the removal of SDLT relief for disadvantaged areas which reduced the valuations of eight of our centres by £36.4 million; 41% of the portfolio by value, compared to 12% of the benchmark.

Growing Fast*

Junction Fund: during the half year the Junction Fund acquired two further retail parks in Telford and Slough, and has continued its active management and development programme. As a result of new lettings, vacancy rates have fallen by 50%. In particular work has started on site at Wembley and Thurrock and we continue with site assembly and pre-letting work at Oldbury. The main retail terrace at Hull is expected to be complete in September as is phase two of the Aylesbury development.

The Fund's performance was disproportionately affected by the removal of SDLT exemption for properties in disadvantaged areas. 49% of its properties were disadvantaged compared to 21% of the IPD index. The resultant impact on value amounted to £20.3 million. The high calibre of the portfolio should enable us to outperform the market in the tougher market conditions that we are anticipating.

X-Leisure Fund: the Fund has been growing strongly this year. It has welcomed four new investors and acquired new leisure parks in Aberdeen and Cambridge. Value has been added as business plans have been implemented, in particular at Star City in Birmingham and Tower Park in Poole. The ability to work closely with tenants and invest relatively small amounts of new capital at the parks is beginning to show good returns.

Fund investors have also benefited from increased market recognition of leisure property as an attractive asset class. This has driven the favourable yield shift during the half year which has continued into the second half. Further evidence of the strength of the investment market is provided by the 8.2% total return achieved in the first half, despite the £7.2 million adverse impact of the removal of SDLT relief for properties in disadvantaged areas.

The portfolio is becoming increasingly focused on assets which allow the C&R management team to add real value. Three health clubs, which are good but "dry" investments, have been sold.

Other UK property ownership activities

Xscapes: we now have three Xscape projects.

- Xscape Milton Keynes is five years old and the first rent reviews are in the process of settlement. Initial indications are that a substantial rise in rental income will be achieved.
- Castleford has now been operating for 18 months, and is trading well. Footfall during the first half was 27% up on the same period last year.
- Our third Xscape at Braehead is under construction, and is scheduled for completion in Spring 2006. Pre-lets have been very encouraging, with 68% of the rental income now legally committed.

Swansea Retail Park: this wholly-owned retail park development is now open and trading strongly. The capital value is now £89 million compared to total build costs of £65 million and we believe that there are opportunities for further increases in value.

Glasgow Fort: we have received a further £2 million from our share of this joint venture development outside Glasgow which has been sold to the Hercules Fund. The sale agreement entitles us to various further sums as certain milestones are achieved.

Hemel Hempstead: this leisure facility has been acquired from Luminar Leisure for £17 million with a lease in place which can be terminated as development opportunities arise. The purchase was completed on 7 September 2005 and we are currently exploring the possibility of a mixed retail park and leisure scheme with the local authority.

Great Northern: this large listed former warehouse development is expected to come to life when London Clubs International opens its casino operation there in early 2006. All regulatory approvals have now been received, and building work to accommodate them has now started. The remainder of the vacant space is under offer to a large nightclub operator.

German portfolio:

On 20 July 2005 we announced the formation of a joint venture with the Hahn Group and the acquisition of a portfolio of eight out-of-town retail centres in Germany for €110 million, of which €33 million had been acquired before 30 June. Since then we have completed the purchase of one other similar property and the total portfolio now stands at €124 million. *

These properties have strong positions in their local markets due to tight planning restrictions on further out-of-town retail development. They typically yield around 7% after providing for landlord costs, and are financed with 70% to 80% bank debt on which the interest rate on the portfolio to date can be fixed at under 4%. They are anchored by major German retailers such as Metro, Rewe and Edeka.

We believe that property is a local business, and that

Chief Executive's statement

management is key. For this reason we have invested considerable time and effort into building a strong working relationship with the Hahn Group, which will handle the local property management and will also have a 10% stake in the portfolio.

The Hahn Group manages 120 single asset closed ended funds with a value of €1.7 billion, and there is potential for C&R to make further purchases as the funds reach the end of their planned lives.

The earnings businesses

Property management: our property management business produced £15.6 million profit before tax during the first half year. All three funds are earning performance fees, which are included at the half year on an estimated basis. Our performance related overhead is set against the performance fees, while the fixed overhead is set against our very stable management fee income (see note 2).

Performance fees

	30 June 2005 £m	30 June 2004 £m	30 December 2004 £m
Mall	**12.1**	9.2	22.8
Junction	**4.8**	2.0	7.3
X-Leisure	**0.5**	–	1.1
Total	**17.4**	11.2	31.2

Snozone: this business is building up a reputation for operating profitable ski slopes. It uses little capital, and has continued to generate a useful earnings stream in the first half.

Financials

Gearing: we measure gearing on a see through basis, including our share of fund and JV debt although it is not shown on the balance sheet. On this basis our debt was 125% of our equity, slightly down since December 2004 due to the CULS repurchase programme as well as acquisitions in the Junction Fund and Germany.

Changes to debt structure: the Mall securitisation has reduced the weighted average cost of our debt from 5.82% to 5.41%. At the same time substantial new interest rate swaps were entered into, and 82% of our see through debt is now effectively fixed for 56 months, up from 29 months in December 2004. Our £1 million share of the unamortised setup costs for the previous bank facility were written off in the second quarter.

Share issues: we raised £49.6 million through the issue of new share capital during the first half, which was used to pay off debt incurred in buying back the CULS.

CULS repurchases: we spent £62.8 million on repurchasing CULS during the first half year. The financial impact has been explained above.

IFRS: the Group's results for the period commencing 31 December 2005 will be the first reported under International Financial Reporting Standards.

Outlook

Market conditions are undoubtedly tough for retailers, many of whom have announced reductions in year-on-year sales. Our management approach is to provide very strong marketing and promotional support at the property level which increases footfall and dwell time and takes an increased proportion of the spend within the catchment.

Our shopping centres have fared well as a result of this and we have found that vacancies created by tenant failures have generally been quickly taken up, often at higher rental levels.

We have not experienced any significant problems in our leisure properties and overall are seeing increased rental values across our portfolio. When one adds to this the regeneration efforts of our teams in reconfiguring our properties to accommodate current market needs, our outlook is positive.

The investment market remains strong for the right retail property, and we have seen investment yields fall by a further 0.2% over the last six months. We are well aware that investment yields cannot continue falling indefinitely, and we are also focusing on the size and quality of our recurring cashflows, which will stand the business in good stead in a tougher economic climate.

Our business model is working well and we are looking forward to further growth during the remainder of 2005.

Martin Barber
Chief Executive

When the going gets tough...

Independent review report to Capital & Regional plc

Introduction
We have been instructed by the Company to review the financial information for the six months ended 30 June 2005 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds, the summary cash flow statement and related notes 1 to 19. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Deloitte & Touche LLP
Chartered Accountants
London
20 September 2005

Consolidated profit and loss account

	Notes	**(Unaudited) Six months to 30 June 2005 £000**	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Turnover: Group income and share of joint ventures' turnover		**38,836**	28,494	69,030
Less: share of joint ventures' turnover		**(4,054)**	(3,328)	(6,658)
Group turnover		**34,782**	25,166	62,372
Cost of sales		**(3,722)**	(3,935)	(7,008)
Gross profit		**31,060**	21,231	55,364
Profit on sale of trading and development properties	3	**3,119**	40	327
Exceptional Group restructuring costs		**–**	–	(1,994)
Other administrative costs		**(14,171)**	(13,749)	(27,923)
Group operating profit		**20,008**	7,522	25,774
Share of operating profit in joint ventures and associates	9a	**17,282**	15,364	30,574
Total operating profit		**37,290**	22,886	56,348
Income from other fixed asset investments		**–**	–	445
Profit/(loss) on sale of investment properties and investments		**233**	185	(1,771)
Profit on sale of investment properties in associates and joint ventures		**1,971**	9,688	13,779
Profit on ordinary activities before interest		**39,494**	32,759	68,801
Interest receivable and similar income		**1,176**	709	1,872
Interest payable and similar charges	4			
– Group		**(4,569)**	(3,278)	(7,389)
– share of associates		**(13,279)**	(9,664)	(21,533)
– share of joint ventures		**(2,979)**	(3,089)	(7,493)
– exceptional premium paid on buy back of Convertible Unsecured Loan Stock		**(46,918)**	–	(8,217)
		(67,745)	(16,031)	(44,632)
(Loss)/profit on ordinary activities before taxation	2	**(27,075)**	17,437	26,041
Taxation credit/(charge) on ordinary activities	5	**9,387**	(4,495)	(5,852)
(Loss)/profit on ordinary activities after taxation		**(17,688)**	12,942	20,189
Equity dividends paid and payable		**(4,880)**	(3,117)	(9,016)
(Loss)/profit retained in the period	13	**(22,568)**	9,825	11,173
(Loss)/earnings per share	6	**(26.3p)**	20.9p	32.2p
(Loss)/earnings per share – diluted	6	**(26.3p)**	18.1p	28.4p

Consolidated balance sheet

	Notes	(Unaudited) 30 June 2005 £000	(Unaudited) 30 June 2004 £000	(Audited) 30 December 2004 £000
Fixed assets				
Intangible assets	7	**11,603**	12,754	12,179
Investment property assets	8	**112,523**	60,547	82,938
Other fixed assets		**13,018**	12,533	12,500
		137,144	85,834	107,617
Investment in joint ventures:				
– share of gross assets		**155,672**	152,631	150,644
– share of gross liabilities		**(106,511)**	(112,752)	(103,902)
	9c	**49,161**	39,879	46,742
Investment in associates	9b	**506,543**	418,311	477,092
		692,848	544,024	631,451
Current assets				
Property assets	8	**15**	8,184	8,314
Debtors – amounts falling due after more than one year		**21,205**	11,155	3,904
Debtors – amounts falling due within one year		**56,636**	23,896	46,350
Cash at bank and in hand		**5,570**	4,390	4,427
		83,426	47,625	62,995
Creditors: amounts falling due within one year		**(44,463)**	(35,555)	(50,404)
Net current assets		**38,963**	12,070	12,591
Total assets less current liabilities		**731,811**	556,094	644,042
Creditors: amounts falling due after more than one year		**(159,579)**	(108,819)	(127,302)
Convertible Subordinated Unsecured Loan Stock		**(4,580)**	(24,543)	(20,372)
Provision for liabilities and charges		**–**	(2,434)	(1,831)
Net assets	2	**567,652**	420,298	494,537
Capital and reserves				
Called up share capital	13	**7,068**	6,381	6,404
Share premium account	13	**216,235**	166,941	167,351
Revaluation reserve	13	**289,549**	175,042	247,197
Other reserves	13	**1,849**	164	1,145
Profit and loss account	13	**51,962**	71,770	72,440
Equity shareholders' funds		**566,663**	420,298	494,537
Equity minority interests	14	**989**	–	–
Capital employed		**567,652**	420,298	494,537
Net assets per share	11	**816p**	677p	793p
Net assets per share – adjusted fully diluted	11	**799p**	596p	710p

Consolidated statement of total recognised gains and losses

	Notes	**(Unaudited) Six months to 30 June 2005 £000**	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Profit before tax and exceptional items		**19,843**	17,437	36,252
Exceptional items		**(46,918)**	–	(10,211)
(Loss)/profit before tax		**(27,075)**	17,437	26,041
Movements in revaluation reserve				
– revaluation on investment properties		**7,427**	7,142	16,371
– revaluation of other fixed assets		**390**	240	280
– revaluation of properties held in joint ventures and associates		**36,115**	42,502	105,358
– gain on deemed disposals		**114**	–	–
Total gains and losses before tax		**16,971**	67,321	148,050
Tax shown in profit and loss account		**9,387**	(4,495)	(5,852)
Tax on revaluation surplus realised		**–**	(5,677)	(6,185)
Total tax credit/(charge)		**9,387**	(10,172)	(12,037)
Total recognised gains and losses for the period		**26,358**	57,149	136,013
Return on equity for the period	12	**5.3%**	15.6%	37.0%
Return on equity for the period before exceptional items for the period	12	**12.0%**	15.6%	39.0%

Reconciliation of movements in equity shareholders' funds

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
(Loss)/profit on ordinary activities after taxation	**(17,688)**	12,942	20,189
Equity dividends paid and payable	**(4,880)**	(3,117)	(9,016)
(Loss)/profit retained in the period	**(22,568)**	9,825	11,173
Share capital and share premium issued in period (net of expenses)	**49,548**	1,437	1,870
Other recognised gains and losses relating to the period	**44,046**	44,207	115,824
Purchase of own shares	**–**	(3,285)	(3,285)
LTIP credit in respect of profit and loss charge	**1,100**	988	1,829
Net increase in equity shareholders' funds	**72,126**	53,172	127,411
Opening equity shareholders' funds	**494,537**	367,126	367,126
Closing equity shareholders' funds	**566,663**	420,298	494,537

Summary cash flow statement

	Notes	**(Unaudited) Six months to 30 June 2005 £000**	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Net cash inflow/(outflow) from operating activities	15	**5,829**	(8,085)	10,950
Distributions received from joint ventures		**2,760**	23,596	23,852
Distributions received from associates		**3,150**	6,295	9,137
Returns on investments and servicing of finance		**(4,478)**	(4,080)	(9,346)
Taxation		**7**	(6,349)	(9,613)
Capital expenditure and financial investment		**(13,398)**	14,626	7,757
Acquisitions, disposals and exceptional items		**(3,665)**	(15,603)	(20,278)
Equity dividends paid		**(5,900)**	(3,113)	(6,226)
Cash (outflow)/inflow before financing		**(15,695)**	7,287	6,233
Financing:				
Issue of ordinary share capital		**49,548**	1,437	1,870
Purchase of own shares		**–**	(3,473)	(3,285)
Purchase of Convertible Unsecured Loan Stock		**(62,755)**	–	(12,433)
Cash inflow/(outflow) from debt financing		**30,045**	(5,336)	7,567
Increase/(decrease) in cash in the period		**1,143**	(85)	(48)

Reconciliation of net cash flow to movement in net debt	**(Unaudited) Six months to 30 June 2005 £000**	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Increase/(decrease) in cash in the period	**1,143**	(85)	(48)
Cash (outflow)/inflow from debt financing	**(14,208)**	5,336	(3,351)
Change in net debt resulting from cash flows	**(13,065)**	5,251	(3,399)
Net debt at beginning of period	**(134,238)**	(130,839)	(130,839)
Net debt at end of period	**(147,303)**	(125,588)	(134,238)

Analysis of net debt	**(Unaudited) Six months to 30 June 2005 £000**	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Cash at bank	**5,570**	4,390	4,427
Debt due within one year	**(200)**	(1,700)	(200)
Debt due after one year	**(152,673)**	(128,278)	(138,465)
Net debt	**(147,303)**	(125,588)	(134,238)

	At 30 December 2004 £000	Cash flows £000	**At 30 June 2005 £000**
Cash at bank and in hand	4,427	1,143	**5,570**
Debt due within one year	(200)	–	**(200)**
Debt due after one year	(118,039)	(30,045)	**(148,084)**
Convertible Unsecured Loan Stock	(20,426)	15,837	**(4,589)**
Total	(134,238)	13,065	**(147,303)**

Notes to the interim results

1 Accounting policies

The interim financial information has been prepared on the basis of the accounting policies set out in the annual report for the period ended 30 December 2004.

The comparative figures represent the Group's results and cash flows for the period from 1 January 2004 to 30 June 2004 and for the period from 1 January 2004 to 30 December 2004.

The comparative figures for the period ended 30 December 2004 do not constitute statutory accounts but have been extracted from the statutory accounts for that year, which have been filed with the Registrar of Companies. The auditors' report in respect of the period ended 30 December 2004 is unqualified and did not contain a statement under Companies Act 1985 sections 237 (2) or (3).

2 Segmental analysis

	Property Management £000	Property Investment £000	Snozone £000	Exceptional and other £000	**Six months to 30 June 2005 Total £000**	Six months to 30 June 2004 £000
Management fees	10,929				**10,929**	8,739
Net rents		25,056			**25,056**	20,360
Snozone income			4,741		**4,741**	4,444
Management cost	(5,539)	(1,464)	(3,701)		**(10,704)**	(9,822)
Net interest expense		(19,651)			**(19,651)**	(15,323)
Goodwill amortisation	(576)				**(576)**	(575)
Recurring pre-tax profit	4,814	3,941	1,040		**9,795**	7,823
Performance fees	17,410				**17,410**	11,155
Cost of performance fees		(6,073)			**(6,073)**	(4,408)
Variable management expense	(6,591)				**(6,591)**	(5,836)
Profit on disposals		5,302			**5,302**	9,913
Exceptional items				(46,918)	**(46,918)**	(1,210)
Profit/(loss) before tax	15,633	3,170	1,040	(46,918)	**(27,075)**	17,437
Revaluation surplus		44,046			**44,046**	49,884
Taxation	(2,361)	(1,993)	(335)	14,076	**9,387**	(10,172)
Total return	13,272	45,223	705	(32,842)	**26,358**	57,149
Net assets/(liabilities) at 30 June 2005	47,040	520,642	(30)	–	**567,652**	420,298

CRPM earns performance fees on the outperformance of the funds. The performance fees earned in the period to 30 June 2005, are £17.4 million (30 June 2004: £11.2 million). Capital & Regional's property investment business bears a share of the cost of the performance fees being £6.1 million (30 June 2004: £4.4 million). Performance fees recognised in the period to 30 June 2005, are receivable by CRPM on 1 December 2006.

Included within property investment is £6.8 million of net assets and £0.1 million of profit before tax arising from operations in Germany. The remainder of the Group's operations are in the UK.

The performance fee income reflected is consistent with the cost of performance fees in the Mall LP, Junction LP and X-Leisure LP accounting shown in note 9b.

The indirect expenses are not split between operations because the directors believe it is not practical.

3 Profit on sale of trading and development properties

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Net sale proceeds	**11,819**	–	–
Cost of sales	**(8,700)**	40	327
Profit on sale	**3,119**	40	327

4 Interest payable and similar charges

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Bank loans and overdrafts	**4,138**	3,462	7,342
Other loans	**431**	877	1,612
	4,569	4,339	8,954
Capitalised in period	**–**	(1,061)	(1,565)
	4,569	3,278	7,389
Exceptional premium paid on buyback of CULS	**46,918**	–	8,217
Share of associates	**13,279**	9,664	21,533
Share of joint ventures	**2,979**	3,089	7,493
	67,745	16,031	44,632

Notes to the interim results

5 Taxation

The taxation charge for the period is based on an estimate of the likely effective tax rate for the current year.

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Current tax			
UK corporation tax	**648**	4,780	7,369
Adjustment in respect of prior years	**424**	(518)	(1,147)
Share of joint ventures tax	**–**	–	–
Total current tax	**1,072**	4,262	6,222
Deferred tax			
Origination and reversal of timing differences	**(10,459)**	233	(370)
Total taxation (credit)/charge	**(9,387)**	4,495	5,852
Unprovided deferred tax	**7,505**	2,952	4,200

The loss for the period to 30 June 2005 arises from the exceptional costs incurred in the repurchase of the CULS. We have recognised a deferred tax asset of £7.7 million relating to the exceptional loss, which is expected to be utilised over the next two years.

During 2004, a significant part of the Group's property interests was transferred offshore and the Auchinlea Partnership sold its interest in Glasgow Fort. The Group has been advised that no capital gains tax liability arises on these transactions, although the relevant computations have yet to be submitted or agreed. The amount disclosed as an unprovided deferred tax liability in the accounts at 31 December 2003 in relation to these assets was £32.2 million.

6 (Loss)/earnings per share

	Six months to 30 June 2005 (Unaudited) (Loss) £000	Number of Shares	(Loss) per share
Basic and diluted	**(17,688)**	**67,214,633**	**(26.3p)**

	Six months to 30 June 2004 (Unaudited) Earnings £000	Number of Shares	Earnings per share
Basic	12,942	61,830,522	20.9p
Exercise of share options	–	694,139	
Conversion of Convertible Unsecured Loan Stock	669	12,670,912	
Diluted	13,611	75,195,573	18.1p

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

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

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.

7 Intangible assets

Cost	Goodwill £000
At 31 December 2004 and 30 June 2005	14,492
Amortisation	
At 31 December 2004	2,313
Charge for the period	576
At 30 June 2005	2,889
Net book value	
At 30 June 2005	**11,603**
At 31 December 2004	12,179

Notes to the interim results

8 Wholly-owned property assets

	Investment property assets £000	Other fixed property assets £000	Trading property assets £000	Total property assets £000
Cost or valuation				
As at 31 December 2004	82,938	12,000	8,314	103,252
Refurbishment and development expenditure	(964)	–	12	(952)
Amortisation of short leasehold properties	(134)	(40)	–	(174)
Acquisitions	23,256	–	–	23,256
Disposals	–	–	(8,311)	(8,311)
Revaluation	7,427	390	–	7,817
As at 30 June 2005	**112,523**	**12,350**	**15**	**124,888**

The property assets were valued at 30 June 2005, as follows:

	Valuer	Basis of valuation	£000
Group properties	DTZ Debenham Tie Leung	Market value	4,406
	CB Richard Ellis Limited	Market value	990
	Directors' valuations	Market value	22,801
	King Sturge	Market value	89,120
			117,317
Less: unamortised tenant incentives			(4,794)
Total fixed property assets (as per balance sheet)			112,523
Other fixed assets	DTZ Debenham Tie Leung	Market value	12,350
Total property assets			124,873
Properties held by joint ventures			
Xscape Milton Keynes Partnership	DTZ Debenham Tie Leung	Market value	91,300
Xscape Castleford Partnership	DTZ Debenham Tie Leung	Market value	70,500
Properties held by associates			
The Mall Limited Partnership	DTZ Debenham Tie Leung	Market value	2,316,000
The Junction Limited Partnership	King Sturge	Market value	1,264,000
X-Leisure Limited Partnership	Jones Lang LaSalle	Market value	634,000

The independent property valuations as at 30 June 2005, were performed by qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors, CB Richard Ellis Limited, Chartered Surveyors and King Sturge, Chartered Surveyors.

The properties were valued on the basis of market value, with the exception of 10 Lower Grosvenor Place, London SW1, which was appraised on the basis of existing use value. All valuations were carried out in accordance with the RICS Appraisal and Valuation standards.

Included within directors' valuations is an amount of £22,581,000 being the value of the Hahn portfolio, which was acquired shortly before 30 June 2005.

9 Associates and joint ventures

9a Share of operating profit

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Associates	**14,617**	13,182	26,181
Joint ventures	**2,665**	2,182	4,393
	17,282	15,364	30,574

9b Associates

	The Mall LP £000	The Junction LP £000	X-Leisure LP £000	**(Unaudited) Total to 30 June 2005 £000**	(Unaudited) Total to 30 June 2004 £000
Profit and loss account (100%)					
Turnover	72,353	18,494	20,348	**111,195**	84,533
Property expenses	(12,960)	(608)	(1,924)	**(15,492)**	(10,282)
Net rental income	59,393	17,886	18,424	**95,703**	74,251
Fund and property management expenses	(25,258)	(9,031)	(2,265)	**(36,554)**	(24,467)
Administrative expenses	(600)	(584)	(248)	**(1,432)**	(1,344)
Share of joint ventures' operating profit	4,327	1,488	–	**5,815**	1,798
Operating profit	37,862	9,759	15,911	**63,532**	50,238
(Loss)/profit on disposal of investment properties	(51)	383	89	**421**	57
Net interest payable	(28,718)	(12,372)	(12,735)	**(53,825)**	(35,495)
Profit/(loss) before and after tax (100%)	9,093	(2,230)	3,265	**10,128**	14,800
Balance sheet (100%)					
Investment properties and joint ventures	2,313,894	1,254,854	632,961	**4,201,709**	2,917,657
Current assets	98,392	35,176	42,619	**176,187**	138,732
Current liabilities	(107,158)	(38,743)	(32,433)	**(178,334)**	(220,643)
Borrowing due in more than one year	(1,125,729)	(633,998)	(385,278)	**(2,145,005)**	(1,292,551)
Net assets (100%)	1,179,399	617,289	257,869	**2,054,557**	1,543,195
C&R interest at period end	26.31%	27.32%	10.81%		
Group share of					
Operating profit	10,195	2,666	1,756	**14,617**	13,182
(Loss)/profit on disposal of investment properties	(14)	105	10	**101**	16
Net interest payable	(7,736)	(3,380)	(1,406)	**(12,522)**	(9,173)
Profit/(loss) for the period	2,445	(609)	360	**2,196**	4,025
Revaluation for the period	16,399	13,984	1,237	**31,620**	40,164
Investment properties and joint ventures	608,786	342,826	68,423	**1,020,035**	763,838
Current assets	25,887	9,610	4,607	**40,104**	35,972
Current liabilities	(28,194)	(10,584)	(3,506)	**(42,284)**	(41,381)
Borrowing due in more than one year	(296,179)	(173,208)	(41,649)	**(511,036)**	(339,824)
Associate net assets	310,300	168,644	27,875	**506,819**	418,605
Unrealised profit on sale of property to associate	(276)	–	–	**(276)**	(294)
Group share of associate net assets	310,024	168,644	27,875	**506,543**	418,311

Notes to the interim results

9 Associates and joint ventures continued

9c Joint ventures

	Xscape Milton Keynes Partnership £000	Xscape Castleford Partnership £000	Xscape Braehead Partnership £000	Auchinlea Partnership £000
Profit and loss account (100%)				
Turnover	2,323	1,701	–	689
Property expenses	(429)	(881)	–	(43)
Net rental income	1,894	820	–	646
Fund and property management expenses	(100)	(100)	–	–
Administrative expenses	(84)	(66)	–	(19)
Operating profit	1,710	654	–	627
Profit on disposal of investment properties	–	–	–	3,742
Net interest payable	(1,579)	(1,572)	–	(334)
Profit/(loss) before tax	131	(918)	–	4,035
Taxation and minority interests	105	–	–	–
Profit/(loss) after tax (100%)	236	(918)	–	4,035
Balance sheet (100%)				
Investment properties	91,048	67,058	27,647	–
Current property assets	–	–	–	–
Current assets	3,604	5,398	1,061	12,994
Current liabilities	(3,165)	(4,063)	(5,554)	(6,677)
Borrowing due in more than one year	(46,800)	(48,793)	(14,658)	–
Net assets (100%)	44,687	19,600	8,496	6,317
C&R interest at period end	50%	66.7%	50%	50%
Group share of				
Turnover	1,161	1,134	–	345
Operating profit	855	436	–	314
Profit on disposal of investment properties	–	–	–	1,871
Net interest payable	(789)	(1,048)	–	(167)
Profit/(loss) before tax	66	(612)	–	2,018
Taxation and minority interests	52	–	–	–
Profit/(loss) after tax	118	(612)	–	2,018
Revaluation for the period	3,456	1,039	–	–
Investment properties	45,524	44,728	13,824	–
Current property assets	–	–	–	–
Current assets	1,802	3,600	530	6,497
Current liabilities	(1,582)	(2,717)	(2,777)	(3,338)
Borrowing due in more than one year	(23,400)	(32,544)	(7,329)	–
Group share of joint venture net assets	22,344	13,067	4,248	3,159

9 Associates and joint ventures continued

9c Joint ventures continued

	Morrison Merlin £000	Others £000	**(Unaudited) Total to 30 June 2005 £000**	(Unaudited) Total to 30 June 2004 £000
Profit and loss account (100%)				
Turnover	2,827	–	**7,540**	6,288
Property expenses	(665)	–	**(2,018)**	(1,685)
Net rental income	2,162	–	**5,522**	4,603
Fund and property management expenses	–	–	**(200)**	(100)
Administrative expenses	(51)	12	**(208)**	(291)
Operating profit	2,111	12	**5,114**	4,212
Profit on disposal of investment properties	–	–	**3,742**	19,343
Net interest (payable)/receivable	(1,815)	10	**(5,290)**	(5,545)
Profit before tax	296	22	**3,566**	18,010
Taxation and minority interests	–	–	**105**	(1,400)
Profit after tax (100%)	296	22	**3,671**	16,610
Balance sheet (100%)				
Investment properties	–	–	**185,753**	140,263
Current property assets	72,500	193	**72,693**	72,500
Current assets	4,832	511	**28,400**	69,913
Current liabilities	(3,088)	(654)	**(23,201)**	(51,806)
Borrowing due in more than one year	(62,500)	–	**(172,751)**	(156,615)
Net assets (100%)	11,744	50	**90,894**	74,255
C&R Interest at period end	50%			
Group share of				
Turnover	1,414	–	**4,054**	3,311
Operating profit	1,055	5	**2,665**	2,182
Profit on disposal of investment properties	–	–	**1,871**	9,672
Net interest (payable)/receivable	(907)	13	**(2,898)**	(3,026)
Profit before tax	148	18	**1,638**	8,828
Taxation and minority interests	–	–	**52**	(700)
Profit after tax	148	18	**1,690**	8,128
Revaluation for the period	–	–	**4,495**	2,338
Investment properties	–	–	**104,076**	80,382
Current property assets	36,250	97	**36,347**	36,250
Current assets	2,416	404	**15,249**	35,999
Current liabilities	(1,365)	(209)	**(11,988)**	(26,543)
Borrowing due in more than one year	(31,250)	–	**(94,523)**	(86,209)
Group share of joint venture net assets	**6,051**	**292**	**49,161**	**39,879**

Notes to the interim results

10 Convertible Subordinated Unsecured Loan Stock

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
At beginning of the period	**20,426**	24,642	24,642
CULS purchased and cancelled in the period	**(15,837)**	–	(4,216)
	4,589	24,642	20,426
Unamortised loan issue costs due after one year	**(9)**	(99)	(54)
	4,580	24,543	20,372
Unamortised loan issue costs due within one year	**(91)**	(91)	(91)
	4,489	24,452	20,281

The Group has made the following CULS repurchases

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Total repurchase cost	**62,755**	–	12,433
Nominal value repurchased	**(15,837)**	–	(4,216)
Exceptional loss	**46,918**	–	8,217

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

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

11 Net assets per share

	As at 30 June 2005 (Unaudited)		
	Net assets £000	**Number of shares**	**Net assets per share**
As per the balance sheet	**566,663**	**70,679,578**	
Own shares held		**(1,244,771)**	
Net assets per share	**566,663**	**69,434,807**	**816p**
Conversion of CULS (net of unamortised issue costs)	**4,489**	**2,359,755**	
Exercise of share options	**1,691**	**702,071**	
Capital allowances deferred tax provision	**6,416**	**–**	
Adjusted fully diluted	**579,259**	**72,496,633**	**799p**

	As at 30 June 2004 (Unaudited)		
	Net assets £000	Number of shares	Net assets per share
As per the balance sheet	420,298	63,810,345	
Own shares held	–	(1,688,411)	
Net assets per share	420,298	62,121,934	677p
Conversion of CULS (net of unamortised issue costs)	24,449	12,670,912	
Exercise of share options	2,329	1,011,304	
Capital allowances deferred tax provision	4,910	–	
Adjusted fully diluted	451,986	75,804,150	596p

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

12 Return on equity

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Total recognised gains and losses	**26,358**	57,149	136,013
Opening equity shareholders' funds	**494,537**	367,126	367,126
Return on equity	**5.3%**	15.6%	37.0%
Exceptional items (net of tax)	**32,842**	–	7,148
Total recognised gains and losses before exceptional items	**59,200**	57,149	143,161
Return on equity before exceptional items	**12.0%**	15.6%	39.0%

Notes to the interim results

13 Reserves

	Share capital £000	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Own shares £000	Profit and loss account £000	Total £000
As at 31 December 2004	6,404	167,351	247,197	4,289	(3,144)	72,440	494,537
Issue of share capital	664	48,884	–	–	–	–	49,548
Revaluation of investment properties and other fixed assets	–	–	7,817	–	–	–	7,817
Share of revaluation of JVs and associates	–	–	36,229	–	–	–	36,229
Realised on disposal of investment properties and on dilution of interest in associates	–	–	(1,694)	–	–	1,694	–
Credit in respect of LTIP charge	–	–	–	–	–	1,100	1,100
Amortisation of cost of own shares	–	–	–	–	704	(704)	–
(Loss)/profit for the period	–	–	–	–	–	(22,568)	(22,568)
As at 30 June 2005	**7,068**	**216,235**	**289,549**	**4,289**	**(2,440)**	**51,962**	**566,663**

14 Minority interest

The minority interest arises as a result of Hahn's investment in the German portfolio and represents 14.6% of the interest in the portfolio.

15 Reconciliation of net cash inflow/(outflow) from operating activities

	(Unaudited) Six months to 30 June 2005 £000	(Unaudited) Six months to 30 June 2004 £000	(Audited) Period to 30 December 2004 £000
Group operating profit	**20,008**	7,522	25,774
Profit on sale of trading and development properties	**(3,119)**	(40)	(327)
	16,889	7,482	25,447
Depreciation of other fixed assets	**150**	160	384
Amortisation of short leasehold properties	**134**	134	268
Amortisation of tenant incentives	**486**	(11)	(763)
Amortisation of goodwill	**576**	575	1,151
Profit on disposal of fixed assets	**(1)**	–	1
(Increase) in trade debtors, other debtors and prepayments	**(16,240)**	(13,002)	(29,538)
Increase/(decrease) in trade creditors, other creditors, taxation and social security and accruals	**2,735**	(4,537)	12,169
Non-cash movement relating to the LTIP	**1,100**	1,114	1,831
Net cash inflow/(outflow) from operating activities	**5,829**	(8,085)	10,950

16 Debt valuation

The table below reflects the adjustment to the interim results, after the impact of corporation tax, required to adjust the carrying value of fixed rate debt and swaps to market value.

	(Unaudited) As at 30 June 2005 £000	(Unaudited) As at 30 June 2004 £000	(Audited) As at 30 December 2004 £000
Fixed and swapped loans – on balance sheet	**85**	2,477	1,242
Group share of associates	**(9,271)**	3,129	(810)
Group share of joint ventures	**(302)**	1,139	(110)
Total	**(9,488)**	6,745	322
(Decrease)/increase in net assets net of tax at 30% (2004: 30%)	**(6,642)**	4,722	225

The change from £4.7 million surplus to £6.6 million deficit arises because the value of medium-term interest rate swaps have fallen during the period.

17 International Financial Reporting Standards

The Group's accounts for the year ended 30 December 2006 will be prepared under IFRS. The interim results for the half year ended 30 June 2006 will therefore be the first set of results published under IFRS. The IFRS conversion project is progressing and we will update shareholders at the year end.

18 Copies of the interim report

Copies of the interim report will be available from the Company's registered office at 10 Lower Grosvenor Place, London SW1W 0EN when they have been printed.

This interim report was approved by the Board of Directors on 20 September 2005.

19 Interim dividend

The ex-dividend date is 28 September 2005 and the dividend payment date is 14 October 2005.

Additional information (neither audited nor reviewed)

Property under management

	30 June 2005 £m	30 December 2004 £m
Investment properties	**117**	83
Trading properties	**–**	8
Mall Fund	**2,316**	2,099
Junction Fund	**1,264**	1,010
Leisure Fund	**634**	597
Other joint ventures	**262**	226
Total	**4,593**	4,023

Fund portfolio information

at 30 June 2005

	Mall Fund	Junction Fund	X-Leisure Fund
Number of core properties	22	19	16
Number of tenants	2,179	237	285
Square feet (000)	7,179	3,810	2,869
Properties at market value	£2,316m	£1,264m	£634m
Initial yield	5.45%	3.70%	5.99%
Equivalent yield	6.04%	5.34%	6.71%
Vacancy rate	5.0%	3.90%	1.70%
Net rental income (per annum)	£131.4m	£51.9m	£40.2m
Estimated rental income (per annum)	£160.2m	£70.1m	£45.2m
Rental increase (ERV)	2.46%	5.29%	0.69%
Reversionary percentage	10.88%	21.19%	6.66%
Loan to value ratio	51.40%	50.30%	61.33%
Underlying valuation change since 30 December 2004	3.67%	4.70%	2.60%
Property level return	6.00%	6.60%	6.30%
Geared return	6.70%	8.13%	8.20%
Unit price (£1.00 at inception)	£1.8473	£2.0136	£1.2204
C&R share	26.31%	27.32%	10.81%

Notes:
1 Properties under management include tenant incentives which are transferred to current assets for accounting purposes.

Interim dividend timetable 2005

Record date	30 September 2005
Last day to receive mandates	30 September 2005
Dividend warrants/tax vouchers posted	13 October 2005
Dividend payment date/shares purchased	14 October 2005
Certificates/purchase statements despatched	27 October 2005
CREST accounts credited	28 October 2005

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Glossary of terms

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

Capital allowances deferred tax provision In accordance with FRS 19, full provision has been made for deferred tax arising on the benefit of capital allowances claimed to date. In the Group's experience liabilities in respect of capital allowances provided are unlikely to crystallise in practice and are therefore excluded when arriving at adjusted fully diluted NAV per share.

Contingent tax liability is the unprovided further taxation which might become payable if the Group's investments and properties were sold at their balance sheet values net of any tax losses which have not been recognised in the balance sheet.

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

CULS is the Convertible Subordinated Unsecured Loan Stock.

Earnings per share (EPS) is the profit on ordinary activities after taxation divided by the weighted average number of shares in issue during the period excluding own shares held.

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

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

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

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

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

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.

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

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

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

Reversionary 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.

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

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

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

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

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