

Report of the directors

Business review

The principal business of the Group is the investment in, and development of, freehold and leasehold properties. A review of the performance and development of the Group's business during the year including KPIs, its position at the year end and its prospects is set out in the sections covering our business and financial position on pages 1 to 29. A description of the principal risks and uncertainties facing the Group and how these are mitigated can be found on page 31. Additional information on employees, environmental matters and social and community matters is included on page 30 and on pages 32 to 36.

The purpose of the Annual Report is to provide information to the members of the Company. The Annual Report contains certain forward-looking statements with respect to 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 from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Nothing in this Annual Report should be construed as a profit forecast.

Results and dividends for the year

The Group results for the year are set out on page 56. An interim dividend of 3.9 pence per share was paid on 3 January 2008, and the directors propose to pay a final dividend of 8.0 pence per share, making a total of 11.9 pence per share for the year ended 31 March 2008. If approved by the shareholders at the Annual General Meeting to be held on 3 July 2008, the proposed dividend will be paid on 8 July 2008.

Freehold and leasehold properties

A valuation of the Group's property portfolio at 31 March 2008 was carried out by CB Richard Ellis on the basis of market value which amounted to £1,087.3 million, the difference between the book value of £1,095.8 million and the market value relates to the capitalisation of finance leases. No account has been taken of any additional value which may be attributed to the portfolio if it were to be grouped judiciously prior to sale.

Directors

Jonathan Short was appointed a Non-Executive Director on 2 April 2007. The other directors whose names appear on pages 40 to 41 served as directors of the Company throughout the year to 31 March 2008. Timon Drakesmith, Richard Peskin and Phillip Rose are the directors retiring by rotation at the Annual General Meeting and, being eligible, following the Board evaluation process, the Board is recommending that they offer themselves up for reappointment. A suitable replacement having been found, Mr Peskin will retire on 16 March 2009. Biographical details of all the directors can be found on pages 40 to 41.

Directors' shareholdings

	At 31 March 2008 Number of shares	At 31 March 2007† Number of shares
Richard Peskin and family		
– beneficial	760,000	140,000
– trustee	73,000	148,000
Toby Courtauld	140,197	35,000
Robert Noel	77,635	29,600
Timon Drakesmith	35,155	31,000
Neil Thompson	29,054	12,714
Kathleen O'Donovan	800	800
Charles Irby	3,000	3,000
Phillip Rose	2,000	2,000
Jonathan Short	7,790	–

† Or at date of appointment.

All directors' shareholdings are in ordinary shares and are beneficial, unless otherwise stated. There have been no changes in the shareholdings of any director between 1 April 2008 and 21 May 2008. No director had any interest in the Company's debenture stock, convertible bonds or loan notes, nor in the shares of any subsidiary undertaking, or contract with the Company or any subsidiary undertaking (other than service contracts) during the year.

Directors' indemnities

On 14 September 2007, an indemnity was given by the Company to the directors in terms which comply with Company law and remains in force at the date of this report.

Significant shareholdings

As at 9 May 2008, the Company had been notified of the following beneficial or discretionary interests amounting to 3% or more of the voting rights of the issued share capital:

	Number of shares	%
Cohen & Steers, Inc	16,401,210	9.06
Government of Singapore Investment Corporation Pte Ltd	8,705,303	4.81
Standard Life Investments Limited	8,090,840	4.46
Legal & General Investment Management Limited	7,817,707	4.32
Stichting Pensioenfond ABP	5,701,037	3.15
Morgan Stanley Investment Management Limited	5,592,307	3.09

Financial instruments

Details of the financial instruments used by the Group are set out in notes 1 and 14. The Group's financial risk management objectives and policies are included in the Risk management overview on page 31 and in Our financial position on pages 26 to 29.

Share capital and control

The following information is given pursuant to section 992 of the Companies Act 2006. As at 31 March 2008, the Company's authorised share capital comprised £68,762,594, divided in 550,100,752 ordinary shares of 12.5 pence. On 31 March 2008, there were 181,023,034 ordinary shares in issue. There are no restrictions on transfer or limitations on the holding of the ordinary shares. None of the shares carries any special rights with regard to the control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers and voting rights.

As far as the Company's aware, there are no persons with significant direct or indirect holdings in the Company other than those noted above.

The rules about the appointment and replacement of directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with legislation in force from time to time.

Creditor payment policy

It is the Company's policy that suppliers be paid in accordance with those terms and conditions agreed between the Company and the supplier, provided that all trading terms and conditions have been complied with. For the year ended 31 March 2008, the average payment period for trade creditors was 49 days (2007: 40 days).

Charitable and other donations

During the year the Company made donations for charitable purposes amounting to £45,394; no contributions for political purposes were made.

Statement as to disclosure of information to auditors

So far as the directors who held office at the date of approval of this Directors' Report are aware, there is no relevant audit information of which the auditors are unaware and each director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

A resolution to reappoint Deloitte & Touche LLP as auditors of the Company will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of Meeting on pages 84 to 85 sets out the resolutions to be proposed at the Annual General Meeting. Resolutions 1 to 8 comprise ordinary business and resolutions 9 to 12 special business.

Resolution 9 will seek to renew the authority for the directors to allot up to 60,280,670 ordinary shares, representing 33.3% of the existing issued share capital of the Company at 21 May 2008. The directors have no present intention of exercising the authority, if granted.

Resolution 10 will seek to renew the authority for the directors to allot equity securities for cash (including any shares held in treasury) up to an aggregate nominal amount of £1,131,394 (representing 5% of the existing issued share capital of the Company at 2008) in respect of rights and other pre-emptive issues, in each case as if the pre-emption requirements of section 89 of the Companies Act 1985 did not apply.

Resolution 11 will seek to renew the authority enabling the Company to purchase its own shares in respect of 27,135,353 shares (representing 14.99% of the issued share capital of the Company at 21 May 2008). The directors intend to exercise this authority if to do so would, in their opinion, enhance shareholder value. If Resolution 10 is passed at the Annual General Meeting, the Company will have the option of holding as treasury shares any of its own shares that it purchases pursuant to the authority conferred by this resolution. This would give the Company the ability to sell treasury shares, providing the Company with additional flexibility in the management of its capital base. No dividends will be paid on shares whilst held in treasury and no voting rights will attach to the treasury shares. Whilst in treasury, the shares are treated as if cancelled. Any shares purchased by the Company under this authority would be cancelled unless the shares are being purchased by the Company to hold and re-sell as treasury shares. The maximum number of ordinary shares which may be purchased under the proposed authority will be 27,135,353. The price paid for ordinary shares will not be less than the nominal value of 12½ pence per share and not more than the higher of 5% above the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the day on which the ordinary shares are purchased and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003.

There were no purchases of shares by the Company during the year. At 31 March 2008, the number of shares which may be purchased under the shareholders' authority given at the 2007 Annual General Meeting was 27,134,869 and the number of shares in issue was 181,023,034.

At 21 May 2008, the Company held no shares in treasury.

The authorities granted under Resolutions 9, 10 and 11 will expire at the conclusion of the 2009 Annual General Meeting or on 2 October 2009, whichever is the earlier.

Resolution 12 will seek approval for a number of amendments to the Company's articles of association to take effect on and from 1 October 2008, primarily to reflect certain provisions of the Companies Act 2006 that will be in force by or on that date. An explanation of the main changes is set out below.

Due to the phased nature of implementation of the Companies Act 2006, it is likely that further related changes to the articles of association will be proposed at a later Annual General Meeting.

Principal changes to the Company's articles of association

The principal changes to be introduced in the new articles are set out below. Other changes, which are of a minor, technical or clarifying nature have not been noted.

Articles which duplicate statutory provisions

Provisions in the current articles which reflect provisions contained in the Companies Act 1985 are, in the main, amended to bring them into line with the equivalent provisions contained in the Companies Act 2006. Examples of such provisions, including provisions relating to proxies and to convening and notice of general meetings, are detailed below.

Convening and notice of general meetings

It is proposed that the provisions in the current articles dealing with convening of general meetings and the length of notice required to convene general meetings be amended to conform to the new provisions in the Companies Act 2006. In particular, a general meeting (other than an Annual General Meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

Quorum requirements

The Companies Act 2006 provides that in general terms the quorum for a general meeting be calculated by reference to the numbers of "qualifying persons" who are present at the meeting, which includes an individual who is a member of the Company, a person authorised under section 323 of the Companies Act 2006 to act as the representative of a corporation, and a person appointed as proxy of a member. As before, it is proposed that the quorum for a general meeting will be two but in line with the Companies Act 2006, the new articles make clear that there will be no double counting for qualifying persons who are representatives of the same corporation or proxies of the same member.

Proxies

A proxy has a statutory right under the Companies Act 2006 to speak at any general meeting. Under the Companies Act 2006, proxies are also entitled to vote on a show of hands whereas under the current articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed to exercise the rights attached to a different share held by the shareholder. The new articles reflect these new rules, as appropriate.

Form of resolution

The current articles contain a provision that, subject to legislation where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision, and certain other provisions, are being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

Remuneration of directors

The cap on aggregate fees payable to Non-Executive Directors is being increased to £500,000 per annum. The Remuneration Committee believes that this increase will ensure that the Company will continue in the future to have the ability to appoint and retain the best Non-Executive Directors.

Directors' interests

The Companies Act 2006 sets out directors' general duties. The provisions 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 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. The new articles, as proposed to be revised with effect on and from 1 October 2008, give the directors authority to approve such situations and to 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. These include, firstly, only independent directors (i.e. those 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, or subsequently, if they think this is appropriate.

It is also proposed to include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position 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 of authorisation of conflicts are operated effectively and that the procedures have been followed.

Directors' indemnities

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors. In particular, the Companies Act 2006 has clarified that a company can now indemnify a director of a company that is a trustee of an occupational pension scheme against liability incurred in connection with the company's activities as trustee of that scheme. This is reflected in the new articles. The opportunity is also being taken to clarify that, subject to the Companies Act 2006, the Company may grant indemnities to directors of associated companies.

Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with shareholders by electronic and/or website communications. The new articles will allow communications with shareholders in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. However, before the Company can communicate with a shareholder by means of website communication, the relevant shareholder 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 shareholder (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a shareholder can always request a hard copy version of the document or information.

By order of the Board

Desna Martin
Company Secretary

21 May 2008