Report of the directors

Business review

The principal business of the Group is the investment in, and development of, freehold and leasehold properties. The information that fulfils the requirements of the Business Review can be found on pages 1 to 43, which are incorporated into this Directors' Report by reference. A review of the performance and development of the Group's business during the year including KPIs, the position at the year end and prospects, is set out in the sections covering our business and financial position on pages 20 to 29. A description of the principal risks and uncertainties facing the Group and how these are mitigated can be found on pages 32 and 33. Additional information on employees, environmental matters and social and community matters is included on pages 30 and 31 and on pages 34 to 40.

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 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 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 64. An interim dividend of 4.0 pence per share (2008: 3.9 pence) was paid on 6 January 2009, and the directors propose to pay a final dividend of 8.0 pence per share, making a total of 12.0 pence per share (2008: 11.9 pence) for the year ended 31 March 2009. If approved by the shareholders at the Annual General Meeting to be held on 9 July 2009, the proposed dividend will be paid on 14 July 2009.

Freehold and leasehold properties

A valuation of the Group's property portfolio at 31 March 2009 was carried out by CB Richard Ellis on the basis of market value which amounted to £794.7 million (2008: 1,087.3 million). The difference of £8.5 million between the book value and the market value relates to the capitalisation of finance leases in respect of the present value of future ground rents. 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

Martin Scicluna was appointed a Non-Executive Director by the Board on 1 October 2008 and became Chairman on 16 March 2009. Richard Peskin retired as Chairman on 16 March 2009 and from the Board on 31 March 2009. The other directors whose names appear on pages 44 and 45 served as directors of the Company throughout the year to 31 March 2009. Toby Courtauld will retire by rotation at the Annual General Meeting and, following the Board evaluation process, is offering himself for re-election by shareholders on the recommendation of the Board. Biographical details of all the directors can be found on pages 44 and 45 .

Directors' shareholdings

	At 31 March 2009 Number of shares	At 31 March 2008† Number of shares
Richard Peskin and family[1]		
– beneficial	2,010,000	760,000
– trustee	49,000	73,000
Martin Scicluna	5,000	–
Toby Courtauld	229,214	140,197
Robert Noel	140,848	77,635
Timon Drakesmith	58,410	35,155
Neil Thompson	71,196	29,054
Kathleen O'Donovan	–	800
Charles Irby	3,000	3,000
Phillip Rose	2,000	2,000
Jonathan Short	7,790	7,790

† Or at date of appointment.

[1] Retired from the Board on 31 March 2009.

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 2009 and 19 May 2009. No director had any interest in the Company's debenture stock 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 7 May 2009, 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	%
Standard Life Investments Limited	16,483,849	9.11
Cohen & Steers, Inc	11,251,306	6.21
Government of Singapore Investment Corporation Pte Ltd	8,196,721	4.53
Legal & General Investment Management Limited	7,152,813	3.95
BlackRock, Inc	6,876,187	3.80

Share capital and control

The following information is given pursuant to section 992 of the Companies Act 2006. As at 31 March 2009, the Company's authorised share capital comprised £68,762,594, divided into 550,100,752 ordinary shares of 12.5 pence. On 31 March 2009, 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 is 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.

Financial instruments

Details of the financial instruments used by the Group are set out in notes 1 and 14, which are incorporated into this Directors' Report by reference. The Group's financial risk management objectives and policies are included in the Risk management overview on page 16 and in Our financial position on pages 26 to 29.

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 2009, the average payment period for trade creditors was 30 days (2008: 49 days).

Essential contracts

The Company has no contractual or other arrangements which are considered essential to the business.

Charitable and other donations

During the year the Company made donations for charitable purposes amounting to £47,568 (2008: £45,394); no contributions for political purposes were made.

Going concern

The Group's business activities, together with the factors affecting its performance, position and future development are set out in the Annual review on page 1 to 43. The finances of the Group, its liquidity position, borrowing facilities and applicable covenants are described in Our financial position on pages 26 to 29 and in note 14 of the accounts on pages 79 to 81.

The current economic conditions have created a number of risks and uncertainties for the Group, these are set out in Risk management on pages 32 and 33. In particular, there is uncertainty over future market-driven valuation movements which may affect the Group's ability to remain within its bank covenants.

The directors have reviewed the current and projected financial position of the Group, making reasonable assumptions about future trading performance, valuation projections and debt requirements. In making this assessment, we have taken into account available market information, consulted with our advisers and applied our own knowledge and experience to the Group's property portfolio and markets. We have considered the potential to achieve further property disposals should valuations fall significantly ahead of market expectations from the 31 March 2009 position and on 19 May 2009, the Company announced a fully underwritten Rights Issue which is expected to raise additional equity of £166.4 million after expenses providing further financial flexibility.

On the basis of this review, and after making due enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

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 LLP as auditors of the Company will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of Meeting on pages 94 to 96 sets out the resolutions to be proposed at the Annual General Meeting. Resolutions 1 to 7 comprise ordinary business and resolutions 8 to 12 special business.

Resolution 8 will seek to increase the Company's authorised share capital. The Company's current authorised share capital is £68,762,594 comprising 550,100,752 shares of 12.5 pence each. As a result of the Rights Issue announced by the Company on 19 May 2009 ("the Rights Issue"), which remains subject to shareholder approval as at the date of this document, the issued share capital of the Company is expected to increase to £39,084,518, comprising 312,676,149 ordinary shares of 12.5 pence each. Accordingly, in order to provide the Company with a reasonable level of headroom for the future, it is proposed to increase the Company's authorised share capital to £75,000,000 being 600,000,000 ordinary shares of 12.5 pence each. The proposed increase is of £6,237,406 by the creation of 49,899,248 additional ordinary shares of 12.5 pence each. This represents an increase of 9.07% in the authorised share capital.

Resolution 9 will seek to renew the authority for the directors to allot ordinary shares. In accordance with the latest institutional guidelines issued by the ABI, the proposed new authority will allow the directors to allot ordinary shares equal to an amount of up to 33% of the Company's issued share capital (£12,897,891) plus, in the case of a fully pre-emptive rights issue only, a further amount of up to an additional 33% of the Company's issued share capital (£12,897,891), in each case calculated on the basis of the above capital expected to be in issue following completion of the Rights Issue. Should the Rights Issue not proceed, the authority conferred by Resolution 9 will remain in place for the full amount stated, but the directors will limit any use they make of it to 33%, plus a further 33% in the case of a fully pre-emptive rights issue only, of the Company's issued share capital as at 19 May 2009. The directors have no present intention of exercising the authority, if granted. However, if they do exercise the authority, the directors intend to follow emerging best practice as regards to its use (including as regards the directors standing for re-election in certain cases), as recommended by the ABI.

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 £1,954,225 without first being required to offer such shares to existing shareholders.
The nominal amount of equity securities to which this authority relates represents 5% of the share capital of the Company expected to be in issue following completion of the Rights Issue. Should the Rights Issue not proceed, the authority conferred by Resolution 10 will remain in place for the full number of shares stated, but the directors will limit any use they make of it to 5% of shares of the Company's issued share capital as at 19 May 2009.

Resolution 11 will seek to renew the authority enabling the Company to purchase its own shares in the market. The maximum number of shares to which the authority relates is 46,870,154. This represents 14.99% of the share capital of the Company expected to be in issue following completion of the Rights Issue. Should the Rights Issue not proceed, the authority conferred by Resolution 10 will remain in place for the full number of shares stated, but the directors will limit any use they may make of it to 14.99% of the shares in issue as at 19 May 2009. The directors intend to exercise this authority if to do so would, in their opinion, enhance shareholder value. If Resolution 11 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. Any shares purchased by the Company under this authority would be cancelled unless the shares are being purchased by the Company to hold and resell as treasury shares.

The price paid for ordinary shares will not be less than the nominal value of 12.5 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 2009, the number of shares which may be purchased under the shareholders' authority given at the 2008 Annual General Meeting was 27,135,353 and the number of shares in issue was 181,023,034.

At 19 May 2009, the Company held no shares in treasury.

The authorities granted under Resolutions 9, 10, and 11 will expire at the conclusion of the 2010 Annual General Meeting or on 1 October 2010, whichever is the earlier.

Resolution 12 is required in view of the proposed implementation in the UK in August 2009 of the Shareholder Rights Directive ("SRD"). The Company is currently able to call general meetings (other than annual general meetings) on 14 clear days' notice in accordance with its Articles of Association and would like to preserve the ability to do so. The regulation implementing the SRD will increase the notice period for general meetings of the Company to 21 days unless shareholders have approved the calling of meetings on 14 days' notice. Under the terms of the SRD, the resolution will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed. The Company will need to meet the requirements for electronic voting under the SRD before it can call a general meeting on 14 days' notice.

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 will be voting in favour of them and unanimously recommends that you do so as well.

By order of the Board

Desna Martin
Company Secretary

19 May 2009