

# CHAIRMAN'S STATEMENT

IN 2003, OUR TOTAL RETURN ON CAPITAL WAS 7.5%. THIS WAS HIGHER THAN IN 2002 BUT STILL BELOW OUR COST OF CAPITAL. PROPERTY HAS ONCE AGAIN BECOME A MAIN STREAM ASSET CLASS WITH LARGE AMOUNTS OF ADDITIONAL CAPITAL ENTERING THE MARKET, SUPPORTING TOTAL RETURNS AND NOW THAT THE PROSPECTS FOR UNDERLYING PROPERTY MARKETS ARE GOOD THE OUTLOOK FOR OUR BUSINESS IN 2004 IS BETTER THAN IT HAS BEEN FOR SEVERAL YEARS.

We seem to be in an era marked by occasional but spectacular business failures. This is in spite of the fact that, overall, business management continues to become more professional and sophisticated. The public and political reaction to these events tends to be to demand 'changes' to ensure that they can never occur again. So we see more governance initiatives and regulations each year which (at least some) companies embrace like children required to eat vegetables. Of course, these regulations invariably apply to listed companies and so, reluctant child or not, we as a private company are free to do as we want. However, we set great store by the rigour of professional management and have always seen 'public company' standards as the appropriate benchmark. The new Combined Code will apply to this report in 2005; we have already decided that, so far as it is relevant to us, we will continue to be guided by this and other Codes as well as providing additional information that is helpful to our banks and other financial partners.

I would like to say something about the image of property developers. While I hope nobody would deny the need for new or adapted buildings, the old caricature of developers is proving hard to shift.

The perception is of sharp-suited men imposing unappealing architecture and land uses on communities with whom they have no sympathy or commitment and making large profits in the process. There is still distrust of developers. We and our peers have to work harder to demonstrate that we are well-intentioned and that we understand our responsibilities. We know that there are commercial and social advantages in building long term relationships in the communities in which we operate. Developers must ensure that development is, in effect, initiated, inspired and delivered locally.

We property developers and owners also need to improve the service that we provide for the occupiers of our buildings across all sectors. These relationships have been functional and too often adversarial, but there is a growing appreciation of the mutual benefit to be derived from a more genuine partnership. By knowing our customers we can develop the products and services they want and we can help commercial occupiers with their business problems. We should have the ambition to satisfy all requirements including an approach to pricing which is more sophisticated than blindly following 'the market'. Such things are easy to say but are not achievable instantly. Progress is never smooth but I know that we are moving in the right direction.

Our knowledge of the way in which tax transparent real estate vehicles work in the U.S.A., Australia, Japan, Singapore and France has convinced us that they encourage greater property industry efficiency, improving choice and flexibility for investors. We are delighted that the UK Government has launched its consultation on tax transparent property structures and believe that it is imperative to get both the transitional arrangements and the final structures right in order to secure their long-term adoption and success. The essential element is to ensure that investors can acquire and hold property within a vehicle as if each investor owned the property themselves so that the un-taxed cash flow passes directly to the investors. We think that the benefits of these vehicles should not be restricted to listed companies; private capital has always had an important role in the development and ownership of property.

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inspired and delivered locally.”*

I am particularly pleased to welcome publicly two new Group Board directors, Sir Edward George, former Governor of the Bank of England and Alasdair Morrison, Chairman and Chief Executive of Morgan Stanley Asia. John Coates has become a consultant to our Australian business, he is a lawyer who is also President of the Australian Olympic Committee and a member of the International Olympic Committee. Altogether we have fifteen external directors and consultants to the Group and its operating companies and they are listed on pages 58 and 59. In June 2004, the Continental European operating company will have its own Board of Directors and Tony Wyand, who has been a Group Board Director for four years, will become its first Chairman. The fact that we are able to attract support and guidance from such experienced and respected people is of considerable benefit to us and I am very grateful to all of them for their time and commitment.

**The Duke of Westminster KG OBE TD DL**

Chairman

18 March 2004

